



# GUIDE TO TAX FOR A NEW BUSINESS

## Getting Started

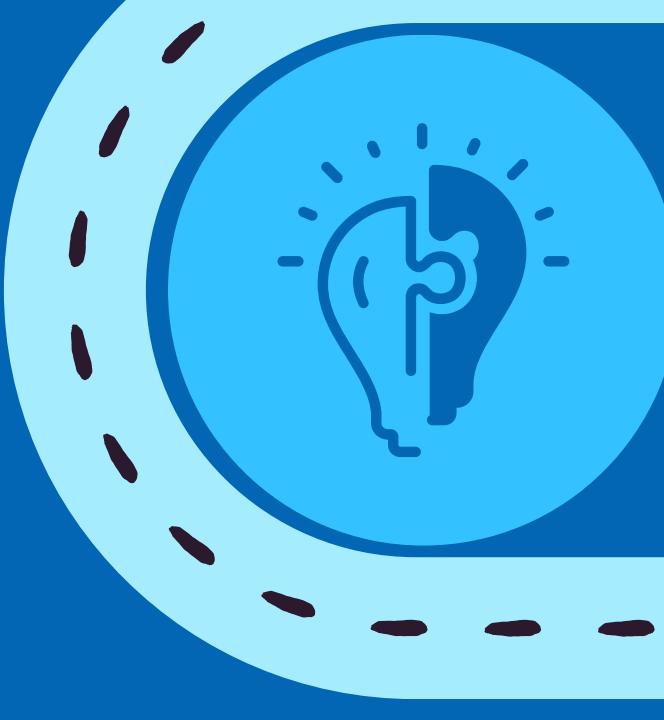
Setting up a new business means you'll need to navigate a few tax responsibilities. We have created simple breakdown, depending on your business structure: sole trader, partnership, CIC (Community Interest Company), or limited company.



### 1.) Sole Trader

A sole trader is someone who owns and runs their business on their own.

Tax Responsibilities:

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- Income Tax: You will pay income tax on your business profits. The rates are:
    - Personal allowance: No tax if income is below £12,570.
    - Basic rate: 20% for income from £12,571 to £50,270.
    - Higher rate: 40% for income from £50,271 to £150,000.
    - Additional rate: 45% for income over £150,000.



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- National Insurance (NI): You'll pay two types of National Insurance contributions:
    - Class 2: Fixed weekly amount if your profits exceed £6,725.
    - Class 4: A percentage (9%) of profits between £9,569 and £50,270, and 2% on profits over £50,270.

**Self-Assessment:** You must register as self employed and file a Self-Assessment tax return annually. Your deadline to file online is usually 31st January following the end of the tax year. For example, if you register as self employed in 2025, your return must be filed by January 2027.



# BUSINESS EXPENSES YOU CAN CLAIM (SOLE TRADER):

As a sole trader, you can claim a wide range of business-related expenses to reduce your taxable profits.

- Office space costs: Rent, utilities, and business rates if you work from a physical office.

- Home office expenses: A portion of your home costs (rent, heating, electricity, and internet) if you work from home. The bill is usually divided by the number of rooms you have in your house, if you use one as an office.



- Travel: Business-related travel costs fuel (45p per mile), public transport, parking) and accommodation. Allowable Car Repair Costs

You can claim tax relief on repair-related expenses, including:

- General repairs and maintenance (e.g., servicing, MOTs).
- Replacement of tyres, windscreens, or other essential parts.
- Breakdown cover costs if the vehicle is used solely for business purposes

- Equipment and tools: Computers, phones, furniture, etc.
- Marketing: Advertising, website costs, and promotional materials.



- Professional services: Accountant fees, legal fees, and consultancy costs.
- Staff wages: If you pay yourself a salary.

**More Info**  
<https://www.gov.uk/become-sole-trader/register-sole-trader>



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## 2. Partnership

A partnership is where two or more people run a business together.

### Tax Responsibilities:

- Income Tax: Each partner pays income tax on their share of the business profits. The rates are the same as for sole traders.
  - Your share of the profit is taxed like a sole trader's income.

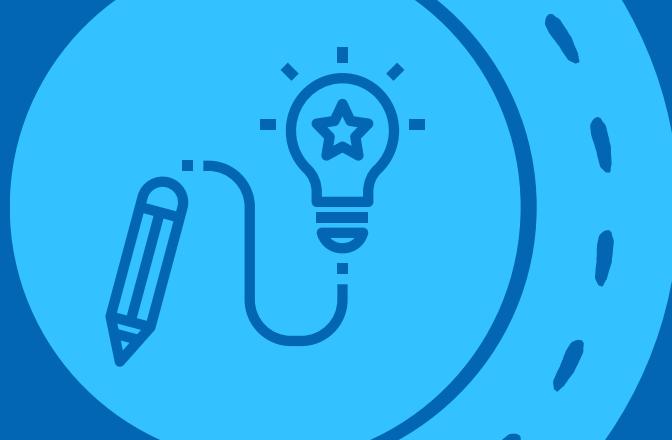


- National Insurance: Partners pay Class 2 and Class 4 National Insurance if profits exceed certain thresholds.
- Partnership Tax Return: You'll need to submit a partnership tax return (SA800). Each partner also files an individual Self-Assessment to report their share of the profits. This will mean a tax return must be filed for each partner, and also one for the company.

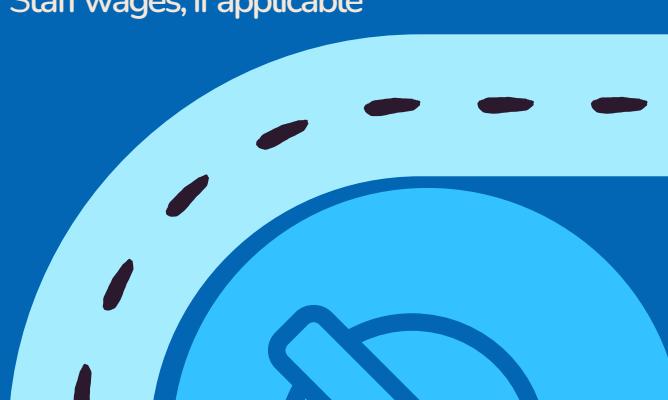


### Business Expenses You Can Claim (Partnership):

- Similar to a sole trader, partners can claim expenses for:
- Business premises (rent, utilities, office supplies)
- Travel expenses for business trips and vehicle costs.  
Allowable Car Repair Costs
- Staff wages, if applicable



- Professional fees for accountants, solicitors, and consultants
  - Equipment, marketing, and office supplies
- You can claim tax relief on repair-related expenses, including:
- General repairs and maintenance (e.g., servicing, MOTs).
  - Replacement of tyres, windscreens, or other essential parts.
  - Breakdown cover costs if the vehicle is used solely for business purposes



### More Info

<https://www.gov.uk/guidance/register-a-partnership-for-self-assessment>



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## 3. Community Interest Company (CIC)

A CIC is a special type of limited company aimed at benefiting the community rather than generating profits for shareholders.

### Tax Responsibilities:

- **Corporation Tax:** CICs are subject to corporation tax on their profits. The standard rate is 19% (subject to changes by government).



- **VAT:** If your turnover exceeds the VAT threshold (£85,000), you'll need to register for VAT.
- **Annual Accounts:** Like limited companies, CICs must file annual accounts and a confirmation statement with Companies House. They must also file a Corporation Tax return with HMRC.
- **Social Investment Tax Relief (SITR):** There are tax reliefs available if you invest in a CIC, but this depends on your specific situation.



### Business Expenses You Can Claim Community Interest Company (CIC):

CICs can claim similar business expenses to limited companies, such as:

- Employee wages
- Office equipment and supplies
- Marketing costs



- Travel and transport
- Professional services
- Research & development costs, if applicable



### More Info

<https://www.gov.uk/government/publications/community-interest-companies-business-activities>

(This also includes a step by step guide.)



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## 4. Limited Company

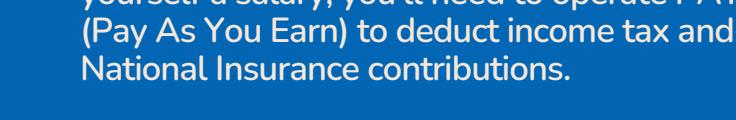
A limited company is a separate legal entity from its owners (shareholders), which provides protection from personal liability.

### Tax Responsibilities:

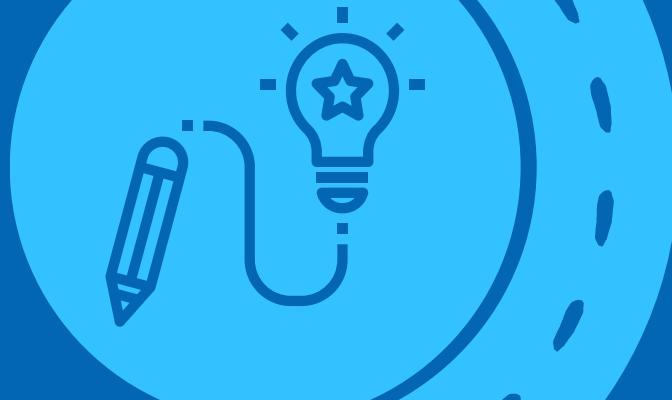
- Corporation Tax: Your company will pay corporation tax on profits. The rate is 19%, although this is subject to change and may vary depending on profits.



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- VAT: If your business turnover exceeds £85,000, you must register for VAT <https://www.gov.uk/register-for-vat/how-register-for-vat>
  - Paying Yourself: As a director, you may take a salary or dividends.
    - Salary: You'll pay income tax and National Insurance contributions on your salary.
    - Dividends: Dividends are taxed separately, with lower tax rates than salary income:
      - Dividend tax rates: 8.75% (basic rate), 33.75% (higher rate), and 39.35% (additional rate).

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- Payroll and PAYE: If you employ staff or pay yourself a salary, you'll need to operate PAYE (Pay As You Earn) to deduct income tax and National Insurance contributions.
  - Corporation Tax Return: You must file a Corporation Tax return annually and submit your company's accounts to Companies House.

**Vist here to get started**  
<https://www.gov.uk/set-up-limited-company>



### Business Expenses You Can Claim (Limited Company):

Limited companies can claim a wide range of expenses, including:

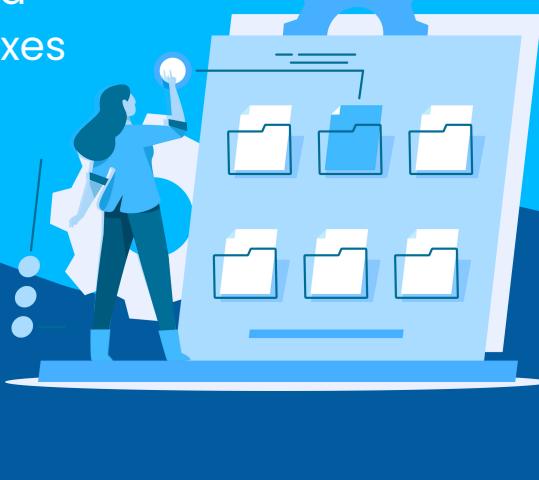
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- Salaries and wages for employees, including directors
  - Office equipment and software
  - Travel expenses, including mileage, flights, and hotels for business trips
  - Advertising and marketing costs
  - Professional services (e.g., accounting, legal)
  - Insurance (public liability, professional indemnity)
  - R&D costs: If you're involved in research and development, you may be able to claim enhanced tax relief.

# GENERAL TIPS

## FOR ALL BUSINESS TYPES:

### 1.) KEEP ACCURATE RECORDS:

- Maintain good records of income, expenses, and business activities to ensure you can file your taxes correctly.



### 2.) UNDERSTAND VAT:

If you're VAT-registered, keep track of VAT on sales and purchases and pay any VAT due to HMRC..



### 3.) PLAN FOR TAX DEADLINES:

- Stay aware of deadlines for filing tax returns and paying tax, as missed deadlines can lead to fines and interest charges.



### 4.) CONSIDER HIRING AN ACCOUNTANT

HMRC provide free payroll software (HMRC basic tools) However there's packages like Sage Quickbooks and so on but nowhere can you also run payroll, do accounts, and snap receipts etc.: Taxes can get complicated depending on your business structure.



- An accountant can help you manage filings, claim deductions, and ensure you're compliant.

# OVERVIEW OF TAX RATES

The UK tax year 2025/26 brings several changes for small businesses and self-employed individuals.

Please note, there are several changes from the 2024/25 tax year around minimum wage increases, changes to the employer allowance, and the rate at which an employer will pay national insurance, for an employee.

## SELF-EMPLOYED TAX INCOME TAX RATES:

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- Personal Allowance: £12,570 tax-free.
- Basic Rate: 20% (£12,571–£50,270).
- Higher Rate: 40% (£50,271–£150,000).
- Additional Rate: 45% (above £150,000).
- National Insurance:
  - Class 2 NICs: £3.50/week (profits above £6,845).
  - Class 4 NICs: 9% (£12,570–£50,270), 2% (above £50,270).
- Trading Allowance: £1,000 tax-free for small earnings.

## CORPORATION TAX RATES:

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- Small Profits Rate: 19% (profits up to £50,000).
- Main Rate: 25% (profits above £250,000).
- Payment due: nine months and one day after the accounting period ends.

## EMPLOYMENT ALLOWANCE 3

From April 2025, significant changes to Employment Allowance will come into effect:

### Key Updates for 2025/2026

- Increased Allowance: The Employment Allowance will rise from £5,000 to £10,500 annually. This allows eligible employers to reduce their secondary Class 1 National Insurance contributions by up to £10,500.
- Removal of the £100,000 NICs Cap: Employers with National Insurance liabilities exceeding £100,000 in the previous tax year will now be eligible to claim.

## VAT RATES:

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- Registration threshold: £85,000 turnover.
- Rates:
  - Standard Rate 20%
  - Reduced rate: 5%
  - Zero rate on specific items.

## DIVIDEND TAX:

- Tax-free allowance: £1,000.

### Rates:

- Basic (8.75%)
- Higher (33.75%)
- Additional (39.35%).

## OTHER HIGHLIGHTS:

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### Allowable Expenses:

Deduct costs like office supplies, travel, and marketing from taxable profits.

### Capital Allowances:

Deduct up to £1 million for qualifying assets.

### Making Tax Digital:

Mandatory digital records for VAT; applies to income tax above £50,000 from April 2026.

## EMPLOYEE INCOME TAX RATES:

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### Personal Allowance:

£12,570 tax-free.

### Basic Rate:

20% on earnings up to £37,700.

### Higher Rate:

40% on earnings between £37,701 & £125,140.

### Additional Rate:

45% on earnings above £125,140.

## NATIONAL INSURANCE CONTRIBUTIONS (NICs):

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### Employee NICs:

- 12% on earnings between £12,570 & £50,270.
- 2% on earnings above £50,270.

### Employer NICs:

- Standard rate: 13.8% on earnings above £9,100.

## NATIONAL MINIMUM WAGE RATES FOR 2025/2026:

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From 1 April 2025, the UK National Minimum Wage (NMW) and National Living Wage (NLW) rates will increase as follows:

### National Living Wage (21 & over):

£12.21 per hour.

### Rates

- 18–20-year-olds: £10.00 per hour.
- 16–17-year-olds: £7.55 per hour.

- Apprentices: £7.55 per hour.

## SUMMARY OF KEY TAX FILING DATES

### Sole Trader/Partnership:

- File Self-Assessment by **31st January** (online)

### Company/CIC:

- File annual accounts and Corporation Tax return by your company's filing deadline (usually 9 months after your financial year-end).