

sale, and you pay income tax or CGT when you take the money out of the company. Deciding whether to put a building into a company or not is a difficult decision with many different issues to take into account. If the decision takes itself by default, it may not be the best choice.

### LLP – a half-way house

A LLP is a business structure which combines different features of a company – it offers the protection of limited liability to the owners – and a partnership – the owners are taxed directly on their shares of profit as they arise.

### A one-off decision?

Depending on the circumstances, it can be beneficial to start off using one type of business structure and change to another later. For example, if you are unincorporated you can set any losses you make in the trade against other income, including from previous years, and get your tax back. So if you leave a high-paid job and start a new venture that makes losses initially but will make big profits in due course, it makes sense to start as a sole trade and incorporate when the trade starts to prosper.

### How we can help

We can help you to understand the issues you need to consider when setting up your business – both commercial and tax-related. We can advise you on what is likely to be best for you. We can also help you with all the paperwork, which can be daunting if you set up a company. After all, you will be trying to get on with your business idea – you don't want to get bogged down in red tape!

### OUR SERVICES

Essex Abel are here to help guide you through the issues detailed in this guide or any other business or taxation issue you may have.

We offer a FREE initial consultation to discuss your individual requirements, from which we will be able to provide a clear and concise plan of action to address the issues discussed.

All our clients (whatever their size or needs) all have something in common – they receive the same professional, reliable, friendly, quality service that forms the basis of our core business values.

We offer an extensive range of services, including the following:

- Tax Planning Advice
- Tax Returns
- Business Start-up Support
- Business Plans & Forecasts
- Year End & Management Accounts
- VAT Returns & Bookkeeping
- Payroll & CIS Bureau
- Statutory Audits
- Company Secretarial Services

**For further information on our services, please see our website [www.essexabel.co.uk](http://www.essexabel.co.uk) or contact us directly on 01509 267827**

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## Starting a Business



**Essex Abel**  
accountants • business advisors

# Starting a Business



## Starting out?

**Starting a business is a daunting time because there are so many choices you need to make. Assuming you've decided what sort of business you want to run, one of the first and most important decisions is the legal form you want to use to run it – an unincorporated sole trade, a traditional unincorporated partnership, a limited liability partnership (LLP) or a limited company.**

## What's the difference?

The big difference between the two “limiteds” and an unincorporated business is the commercial risk for the owners. In a sole trade or partnership, if something goes wrong – say one of the products causes some damage – then the owners can be sued directly for every penny they have. It isn't just the business that can go bust, it's the owners. A LLP or company offers some protection. The business gets sued, not the owners. If it goes bust, the owners can start afresh without losing their own shirts.

There are limits to this, of course – if someone tries to hide dishonestly behind the front of a LLP or company, the law may make them personally liable for the debts of the business. But if you are doing your best to run an honest business and you are just unlucky, limited status protects you.

## What about tax?

The choice of business form makes a huge difference for tax. The profits of a sole trade or partnership are taxed on the owners as they arise at income tax rates (up to 50%) and are also charged to National Insurance Contributions. If you are making over £42,475 a year, your marginal tax rate on extra profits is 42%. If your profit exceeds £150,000, the marginal rate will be 52%.

A company pays tax at only 20% on profits up to £300,000 a year. At first sight, that makes the decision easy – it's a massive saving. The only problem is that there is an extra tax charge when the company pays the profits out to the owners as dividend or salary – that 22% or 32% saving can disappear.

A company can certainly save you tax:

- on modest profits – on £42,475, the difference can be about £3,150, even if you pay everything out;
- on profits that you retain in the business – if you delay the tax charge on extraction, you may be able to keep some of the benefit of that 22% or 32% difference between the tax rates.

## Through the company or not?

If you are unincorporated, everything done by the business is done by you for tax purposes. If you run a car, you claim just the business proportion of the expenses. If the business buys something for your private use, you just exclude it from the business profit and loss account.

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If the business is a company, it's more complicated. Anything the business provides for you is likely to be an expense for corporation tax purposes, but there is a separate tax charge on you as a “taxable benefit”. That's likely to be worse than the unincorporated treatment, and it may be better for you to pay for your own benefits rather than have the company provide them.

### Example

Alan runs a car which has a CO<sub>2</sub> emissions rating of 175g/km. It cost £20,000, and he uses it 80% for business purposes. Fuel for the car costs £3,200 a year, and servicing and insurance are £1,600. If he is a sole trader, he claims capital allowances of 80% of £2,000 in the first year and running expenses of 80% of £4,800.

If a company provides him with the car, it will claim the full allowances (£2,000 plus £4,800), but he will pay tax on benefits-in-kind for the car of £5,000 and £4,700 for the fuel. The company will pay NIC on those figures as well. If Alan is a 40% taxpayer, the total tax and NIC is £5,219.

## In the company or out?

There is a different twist if you run a business and own the buildings it occupies. If the business is a company and it owns the buildings, you can end up paying two lots of tax if the building goes up in value – the company pays corporation tax on a gain on