Business 101: Questions to ask your accountant in the UK

OSOME

Did you know you can develop an entrepreneurial superpower? It's not flight or teleportation or super-strength. It's something much more every day: Asking the right questions.

There is a big difference between known unknowns — things you realise you don't know — and unknown unknowns. The latter offers an enormous challenge to any business. These are challenges you could prepare for — but you don't through a lack of awareness.

Asking the right questions will drastically decrease — if not eliminate — the unknown unknowns.

Specifically, ask the right questions of your accountant. To get the best client experience with any accountant, begin with the right questions.

But what exactly are those questions? Osome's got you covered. In this guide, we'll look at the questions to ask your accountant (and we'll also cover the answers).

Remember: this is just the beginning. If you'd like to grow your business rather than groaning over accounting, we're here to help.

→ [Talk with an Osome accountant today]

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① I'm a Sole Trader, when should my Financial Year-End (FYE) be?

How long is a piece of string? Just kidding. What we mean is that there is no set financial year-end for UK businesses. Your year-end could, theoretically, be any date. But – and there's always a but! – there are some important things to consider.

In the UK, **the tax year runs from 6 April to 5 April.** As such, most businesses find it convenient to plump for these dates. So if you launched your business on **1 August**, you produce your accounts until **5 April the following year** (and then on an annual basis thereafter).

Now, you don't have to do that. You may decide, for whatever reason, that you want your first set of accounts to run to **31 July the following year.**

That's perfectly allowed – but comes with a catch. Because it's straddling two different tax years, you will pay tax on the same profits twice. So for example, **if your business started 1 January 2021, and you choose 31 December as your year-end date**, the basis period for tax will be:

2021/22

1 January 2022 → 5 April 2022
i.e from the start date up to the end of that tax year

2022/23

1 January 2022 → 31 December 2022
i.e the first 12 months of trading

In other words, **your profits from 1 January 2019, to 5 April 2019 are taxed twice.** This is known as "overlap profit". You can claim overlap relief – but this is only available in your final year of trading (so when you wind your business up).

Plus, don't forget about filing your self-assessment. Not sure what this is? It's basically your way of declaring your income and paying taxes on it.

The deadline for doing this is 31 January, so make sure you don't miss it!

② Should I form a limited company?

Ask an entrepreneur and they'll tell you: The line between work and life can be blurry. Running a business often requires odd hours, and lots of elbow grease, and it's tricky to know where the business ends and you begin.

But legally speaking, the distinction between you and your business can be made crystal clear. With a limited company, your business effectively becomes its own person.

The 'limited' refers to your personal liability. If your business incurs losses or debt, it's not solely your responsibility. All shareholders in the business will be responsible for the debt.

Crucially, your personal assets are protected. For sole traders, this protection doesn't exist. Should you incur any losses, assets like your house and car may need to be sold to settle your debt.

Advantage Limited companies can be more tax efficient. You can pay yourself with a combination of dividends and salary.

Drawbacks There's more financial admin, rigid tax rules and you need to prepare annual accounts. Your details will also be listed publicly by Companies House.

③ What to do with my shareholding once I become a limited company?

Companies House requires at least one shareholder to incorporate a limited company. That one shareholder would, naturally, be you. You can have a 100% controlling stake in the company. That's fine – but it's worth considering alternatives.

For example, it might be worth splitting the shares with, say, your wife or partner (especially if they only work part-time or not at all). As separate individuals, they have their own tax-free allowance.

With dividends, you have a £2000 tax-free allowance. This allowance is unrelated to any non-dividend income you get (like a salary). Over that £2000 (up to £37,700) the dividend tax rate is 8.75%.

That's much lower than the basic rate of income tax (20%). Now, it's not completely cut and dry. When dividend income creeps north of £2000, it starts to interact with salary for tax purposes.

A skilled accountant will guide you through this. But, in essence, a founder would draw a small salary from their business **to partly use as a personal allowance — £12,570 in the UK**. This salary is tax-free and deductible for corporation tax purposes as well.

Then, you would also supplement your salary with dividends. If you split your shares, then there's more wiggle room.

HMRC has become stricter, however, on these sorts of dividend tax arrangements. It's not enough to just say your wife works for the company, for example. HMRC may want you to prove it.

As always, speak to an experienced accountant about how to allocate shares to a loved one. **An accountant will do the sums and let you know:**

1. Whether it's worth doing in the first place.
2. What salary and dividends to pay to the other shareholder.

④ What are the relevant tax rates for limited companies?

Corporation Tax (CT)

The big one for limited companies is Corporation Tax (CT). You pay this tax on your profits. If you're yet to turn a profit, then you don't pay.

From April 2023, the amount of Corporation Tax you pay **depends on your company's profits**. Small companies with profits under £50,000 will pay **a 19% tax rate**. Companies with profits between £50,000 and £250,000 will pay tax at the main rate, with a marginal relief. This provides a gradual increase in the effective Corporation Tax rate.

National Insurance Contributions (NICs)

If you employ people, your limited company must pay employer's National Insurance Contributions (NICs).

NICs are set at 15.05% on employees with wages of more than £175 per week.

Dividend Tax & Allowance

Finally, as a company shareholder, you can pay yourself dividends. There's **no tax on the first £2,000** of dividend payments. But you pay tax on anything over.

The basic rate payable is **8.75%**, the higher rate is **33.75%**, and the additional rate is **39.35%**.

Crucially, dividends that fall within your Personal Allowance don't count towards your £2,000 dividend allowance (see question 3 for more details).

⑤ Or, what are the relevant tax rates for sole traders?

Income Tax

Income Tax is based on the personal income you receive. For example, business profit, rental income, investments and so on.

For most sole traders, you should also factor in making payments on account (POA) towards the next tax year. These are payments in advance for next year's tax bill, happening on **31 January** and **31 July** each year.

Income Tax bands and rates for the 2022/23 tax year:

Band	Taxable income	Tax rate
Personal allowance	up to £12,570	0%
Basic rate	£12,570 to £50,270	20%
Higher rate	£50,271 to £150,000	40%
Additional rate	over £150,000	45%

National Insurance Contributions (NICs)

Self-employed workers will report these payments on their Self-Assessment Tax Return or payment on account. There are two types of National Insurance rates sole traders need to take note of — **Class 2 NICs** and **Class 4 NICs**. You'll find the most up-to-date details on National Insurance rates here.

Value Added Tax (VAT)

If your turnover is **more than £85,000** within 12 months (or you expect it to be within 30 days), you need to register for Value Added Tax (VAT). But, you can also decide to register voluntarily. Your accountant can tell you more about the benefits of being registered.

⑥ What are the big filing deadlines for your limited company?

There are a few to take note of. If you're registered for Corporation Tax (CT), then you need to file a company tax return (CT600).

Your CT600 must be sent to HMRC no later than 12 months after the end of your company's accounting period.

Your CT tax bill must be paid no later than 9 months and one day after the end of your accounting period.

Then there's VAT. If you have an annual taxable income **over £85,000** (2022/23 threshold), you must register your business for VAT. Voluntary VAT registration is possible (more on that later).

If you employ workers (or draw a salary as a director), then you must register for PAYE. Directors and shareholders also have to register for Self-Assessment and prepare tax returns for personal income received from share dividends, expenses, and directors' loans.

Learn more

No one wants to miss tax deadlines. It usually means a fine and can put you in hot water with His Majesty's Revenue and Customs (HMRC).

Save yourself the hassle and download key tax dates straight to your calendar with our article [Tax Deadlines in UK You Need To Know About.]

⑦ Do I need to register for VAT?

It depends on your turnover. **Remember: Turnover is not the same as profit.**
There are nuances here – but essentially:

Turnover

is the net sales generated by your business.

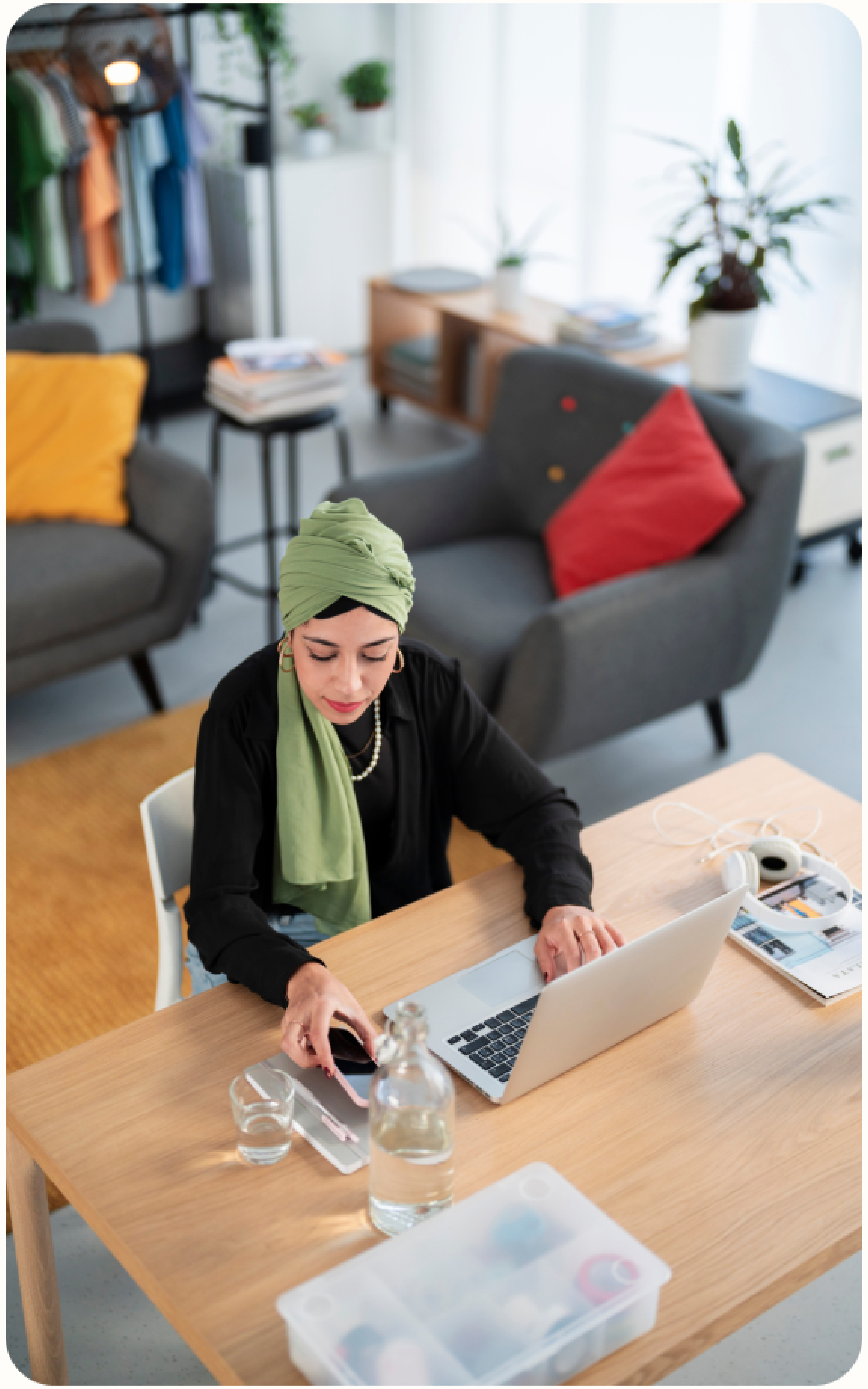
Profit

is residual earnings. You get it by deducting your expenses from net sales.

It's vital to know this distinction in regards to VAT registration. The threshold for VAT registration is a turnover of £85,000. The UK's threshold is unusually high.

The topline message here is: **If your turnover exceeds £85,000, you are legally required to register for VAT** and file quarterly returns. The quarterly returns are filed through your accounting software.

⑧ Is it worth registering for VAT despite being under the threshold?



You can register for VAT voluntarily if your turnover is below the £85,000 threshold. But why? Well, if you're registered for VAT, it means you can reclaim VAT on any purchases you make (if they are subject to VAT, of course).

It's also a matter of perception. Some businesses simply like to appear 'legit'. A VAT number can make you seem bigger than you are. It's a bit of smoke and mirrors.

The downside to VAT registration is that you have to add VAT to your sales.

That is 20% a pop (unless what you are selling is VAT exempt). If you're selling online, this means your non-VAT registered counterparts can charge 20% less than you.

But this 20% discrepancy matters less if your clientele is predominantly larger, VAT-registered businesses. These businesses can reclaim the VAT you charge. But in a competitive e-commerce market, the difference between £12 and £10 is pretty big.

So consider it carefully. There is no 'right' answer.

⑨ How do I get money out of my company?

The obvious answer is by drawing a salary. But there are more tax-efficient ways to get paid from your business. If you are a shareholder, then dividends are a powerful, lower-taxed way to get money from your company.

With dividends, you have a £2000 tax-free allowance. This allowance is unrelated to any non-dividend income you get (like a salary). Over that £2000 (up to £37,700) the dividend tax rate is 8.75%.

This compares favourably to the basic rate of income tax (which is 20%). You can get even more value by passing some shares to your wife, partner or family member. (Check question three for more detail on this).

As always, it's worth discussing with your accountant. What is right for you won't be the same as another business. A skilled accountant will guide you through the process, keep you compliant, and make your earnings more tax-efficient.

⑩ What type of expenses could count as business expenses?

Simply put, business expenses are those involved in running a business. Before you get too excited — note these expenses must be exclusively tied to operating your business. This means personal and capital related expenses don't count. Business expenses can include:

Employee salaries and benefits	Rent or lease payments for business premises	Office supplies and equipment
Marketing and advertising expenses	Professional fees (e.g. accounting, legal)	Utilities
Travel and transportation costs (e.g. fuel, train tickets)	Repairs and maintenance costs	Insurance
Bank charges and loan interest	Phone bills	Depreciation of fixed assets (e.g. computer equipment)

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Reminder: You didn’t get into business to be an accountant

Enter: Osome’s financial experts. We have your back with all things small business accounting. We help you file documents on time, organise your reports, and stay on top of your financials. So you can focus on what matters — growing your company.

Chat with an accountant