dns accountants

# Partnership

Guide

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# A business partnership

You are starting a business but instead of going it alone you partner up.

A business partnership is a great idea. You share the journey and its ups and downs including responsibility, liabilities and profit. As with any partnership, the big question is how to make it work or at the very least, how to avoid the worst pitfalls?

## Business partnership agreement

A business partnership may be set up to run a traditional business; but may also be used to hold business investments like land or a race horse.  A formal partnership is not required when the only jointly owned asset is rental property, and not expected if the partners in that property are husband and wife or civil partners.

Hence a business partnership is set up to run a successful business enterprise, whether the business is a trade, profession or investment, sharing the risks, profits and liabilities.

In a business partnership, two or more people go into business together. As they will share all responsibilities, liabilities and profits generated by their business, this simple definition alone shows us that there is enormous scope for conflict: Who is responsible for what? Who has to pay for what and when? What share of profits will each of the partners receive? What happens when one of the partners wants out or dies – will the business be dissolved or carry on?

To ensure as smooth a journey as possible, you need to draw up a written partnership agreement that sets out all partners' rights, responsibilities and liabilities; that minimises misunderstandings and provides guidance in the event of a disagreement among the partners. Should the business look for outside funding, such an agreement will also provide the stability and clarity potential investors require.

The safest way to avoid this journey becoming a trip through a minefield is to seek professional advice before drawing up your partnership agreement. After all, the purpose of such an agreement is to settle these and other issues that may arise in your specific line of business, as much as possible in advance, rather than create even more scope for litigation. A clause stipulating conditions on how to modify the agreement should also be included.

If you do not sign a partnership agreement, the Partnership Act 1890 defines the terms of the partnership.

## Types of business partnership

For most purposes, the following 3 types of business partnership will satisfy any requirements:

- Ordinary (General) Partnership
- Limited Partnership
- Limited Liability Partnership (LLP)

## Ordinary partnership

In an Ordinary or General Partnership, two or more individuals are the co-owners of a business. All partners share the profits of the business and, in analogy to a Sole Trader; there is no limitation of liability. All partners are jointly and severally liable with their personal assets at risk for all debts and liabilities.

An Ordinary Partnership has no separate existence in law. The partners must designate a Nominated Partner who must register the partnership with HMRC for Self Assessment and who will be responsible for managing the partnership's annual tax returns and keeping business records. The Partnership must be registered before the 5th of October of its second year of trading.

The Nominated Partner has to report to HMRC annually, the profits of the partnership and how that profit is split between/allocated to each partner for tax purposes. The partnership agreement should specify the mechanics but there are complicated rules to follow, so the assistance of an accountant here is a good idea.

Partners are individually responsible for tax on their income, including their share of profits, and National Insurance contributions. They too must register for self-assessment and submit returns.

Regulations on VAT apply to partnerships as to any other business.

## Limited partnership

A Limited Partnership has at least one General Partner and one Limited Partner. It sits half way between an Ordinary Partnership and a Limited Liability Partnership. The major difference is the way the two types of partner are liable. While the General Partner has the same responsibilities and liabilities as a partner in an Ordinary Partnership, the Limited Partner's liability is limited to the amount invested.

For tax purposes, there is no difference between a Limited Partnership and an Ordinary Partnership – see above.

All partners are individually responsible for registering for self-assessment, tax on their income and National Insurance contributions.

## Limited Liability Partnership (LLP)

Just like a Limited Company, partners in a business that has been established as a Limited Liability Partnership (LLP) enjoy the protection of their personal assets from business debt and liabilities. Partners' liability is limited to the funds they personally invested and any personal guarantees they provided to secure finance.

LLPs must have a Partnership Agreement defining each member's rights and responsibilities. As liability is limited, partners are not held responsible for liabilities incurred by other members.

Administrative requirements are similar to those faced by Limited Companies. Each LLP must designate at least two partners who are legally responsible for registering the partnership at Companies House and for timely filing of the annual accounts and the annual report with Companies House. As a LLP is incorporated, it has a continuing legal existence independent of its members.

Partners are responsible for preparing statutory accounts that conform to regulations and filing those accounts with Companies House within 9 months of the LLP year end. These accounts have a special format and we recommend the assistant of an accountant like dns group to compile accounts for submission.

These statutory accounts must also be filed, electronically, with HMRC along with the partnership tax return.

For tax purposes, there is no difference between a LLP and an Ordinary Partnership – see above... Each partner must pay income tax on their share of any profits, irrespective of whether or not the profits are actually distributed. All partners are self-employed and must register for self-assessment within three months of starting up.

In the United Kingdom LLPs are governed by the Limited Liability Partnerships Act 2000 (in Great Britain) and the Limited Liability Partnerships Act (Northern Ireland) 2002 in Northern Ireland.

# Advantages & disadvantages of a partnership

Being a partnership, the business owners necessarily share the profits, the liabilities and the decision making. This is one of the advantages of a partnership, especially where the partners have different skills and can work well together. However, it can obviously present some problems. Over the years, many partnerships have turned sour. Family and friends go into business together and end up falling out on a personal or business level and it all ends badly. This is one of the major disadvantages of partnerships over other business models, but it's also important to be able to consider the business advantages and disadvantages.

## Advantages of a partnership

### Capital –

Due to the nature of the business, the partners will fund the business with startup capital. This means that the more partners there are, the more money they can put into the business, which will allow better flexibility and more potential for growth. It also means more potential profit, which will be equally shared between the partners.

### Flexibility –

A partnership is generally easier to form, manage and run. They are less strictly regulated than companies, in terms of the laws governing the formation and because the partners have the only say in the way the business is run (without interference by shareholders) they are far more flexible in terms of management, as long as all the partners can agree.

### Shared responsibility –

Partners can share the responsibility of the running of the business. This will allow them to make the most of their abilities. Rather than splitting the management and taking an equal share of each business task, they might well split the work according to their skills. So, if one partner is good with figures, they might deal with the book keeping and accounts, while the other partner might have a flare for sales and therefore be the main sales person for the business.

### Decision making –

Partners share the decision making and can help each other out when they need to. More partners means more brains that can be picked for business ideas and for the solving of problems that the business encounters.

### Privacy –

A partnership offers more privacy, barring a Limited Liability Partnership, than a limited company as there is nothing on public record. A Limited company needs to keep Companies House informed of all changes in Directors and persons of significant influence, similarly an LLP needs to report partners, whereas an ordinary partnership has no record at Companies House.

### Paperwork –

A partnership follows the same basic rules as a sole trader, in that it need only keep records of income and expenditure. A limited company needs to keep track of all payments as it is obligated to keep track of all assets and liabilities and be able to identify them at any point in time. An LLP will need to produce a list of asset and liabilities at the year end, including partner's contributions accounts, but an ordinary partnership is only recommended to keep track in order to resolve intra-partnership disputes.

### Reporting –

A partnership, barring a Limited Liability Partnership, can produce simple accounts, just reporting profits to HMRC. A limited company need to prepare full statutory accounts, according to regulations. Similarly, an LLP will need to produce full statutory accounts, especially a balance sheet showing assets and liabilities and partners' contributions, for submission to HMRC, as well as making submissions to Companies House, whereas these are not required for an ordinary partnership.

## Disadvantages of a partnership

### Liability –

Joint and several liability means you are responsible for what your partner does and any creditors can come to any partner for settlement of all debts – not just a share.

### Tax efficiency –

A partnership is less tax efficient, if you withdraw less than your profits, as compared to a Limited Company where you can pay lower tax on undrawn monies. All monies earned via a partnership suffer full tax regardless of whether drawn or left in the business.

### Compromise –

Partners have to agree, and maybe compromise as regards actions especially tax efficient ones. An action may be tax efficient on one partner but not on another, e.g., partner 1 may have something that can be used to the tax advantage of the partnership but do the other partners have something similar or let the partner 1 claim it purely to enjoy that benefit or not allow it at all?

# The partnership business

The partners have got together for business i.e. the selling of a product or a service, of the exploitation of an asset, with a view to making a profit. All the usual considerations apply to that business. However, with the involvement of partners there may be more knowledge and skills to draw on and more reasons to be clear and formally agree expectations, objectives and plans.

## Have a clear product or service

A business is selling a product or a service with a view to making a profit. You may buy in that product or service or create it yourselves.

So,

- What is your business going to sell?
- Who are you going to sell to?
- How are you going to obtain or create that product or service?
- How are you going to get it to customers?

The answers to these questions can contribute to how you create a clear and unique product or service to promote and sell.

When you know the answers to these, you can start to plan your business.

## Price your product or service right - enough to make a profit

Now you know what you are planning to do, we need to see if the idea is viable – will it make a profit? There are several elements to making a profit but number one is price.

The price you charge must be one that customers are happy to pay but also one that will cover ALL your costs and gives you a reward on top.

Market research can be a key to seeing what customers will pay.

But budgeting costs can be more difficult: -

- What are different suppliers offering? bulk discounts, lead times
- Should you outsource or make it in house? cost, quality, time
- What do you prioritize? health, environment, cost, quality
- Do you plan to sell lots for a small profit each or a few at a big profit each?
- What about premises and plant – do you build, buy or hire?
- How do you do the admin? What are the costs?
- How do you finance all of these?
- And finally – what about taxes?

Only if you have covered all the costs do you make a profit.

Formal budgets may seem like time wasted but they can really help you understand your business, where the money is going, what to monitor and even help you to get finance.

We are happy to assist in the preparation of budgets and cash flow forecasts as well as full business plans. And if you need finance, we have a full range of contacts to assist you with loans that are right for your business.

## Create your own website

Having a website for customers and potential customers to find is now an essential to most businesses.

A website is your virtual shop. It's a place where you tell the world about what you do, who you can help and where you can educate customers and the world about your product and services. It's one of the most important and essential tools these days to start networking, and building the business relationship, where you can educate / tell / explain as you interact with the potential client.

But your website can now be used for so much more – promotions, sales and lead generation, actual selling, providing information and as a user forum to name but a few.

dns group can help you set up a Website that is a great tool for your business

## Create your own email

An email address is also an essential business tool. It is usually associated with your domain name and website address so care needs to be taken in choosing a good one.

- Test it out – what do people find if they search for you – your chosen address
- Who is using something similar – typos etc.?
- What is the cost? – do not forget to renew regularly
- Make sure you buy from a reputable supplier
- Take care to buy it before you use it or you could lose it

Remember that your email set up makes you look professional and the positioning of the business to end clients is very important. If you do business these days without emails with Hotmail or Google accounts, there is a risk that your business may be considered too small or less professional. dns group can help you get set up with emails.

## Select the right accounting software to raise invoices and maintain books

Technology is often more efficient that relying on manual procedures. Cloud accounting platforms employ a range of refined algorithms that help automate the process of entering data and computations, and can also robotically update or amend balances when an adjustment is made. Cloud accounting solutions also permit more integration with other accounting tools such as HMRC services, inventory management platforms and payroll providers. Our cloud accounting software operates under a Software-as-a-Service (SaaS) business model, where customers pay a relatively small monthly fee on a regular basis, rather than having to pay a huge amount upfront.

dns group provides free cloud software to clients to help them raise invoices, collect invoices and pay invoices all in time. It's a very important part of business that you stay on top of your invoices as rightly said Cash is King.

## Select the right accountant

A good accountant should have an in-depth knowledge to deliver work in a timely manner, to the uppermost standard and in agreement with all financial and legal regulations. They can help you to reduce operational costs by taking away the burden of managing a dedicated in-house workforce for accounting and taxation. In turn making it possible for the business owner (you) to focus attention on maximizing revenues and profits. It can be challenging to also be on top of a variety of legal reporting requirements and filing deadlines. dns group offers small businesses with accounting services to help them stay compliant with the UK accounting legislation and tax rules. Our team of ACA's and CA's are up-to-date and stay on top of deadlines, eliminating the hassle of accounting obligations for small businesses and freelancers or contractors.

## Work on your books – stay in control!

Good accounts management is vital for business success, for processes both big and small. For small business or start-ups it is fundamental to get this right from the start, so that the growth of the business is not hampered. In order to make the business scalable individual business owners need to maintain a sound financial structure.

We as accountants can help small businesses understand the position of the business and assist in the maintenance of financial documentation. Rather than considering this a tedious task, businesses should take an active interest in taxation and accounting issues as this will help in running the business better.

Staying in control means you are on top of your cash flow too which can only happen with keeping your books up to date and reconciled. dns group with its support can help you stay in control of books and cash flow.

# Expenses you can claim

## What are allowable expenses?

All businesses will incur some form of expenses. The amount and type will vary from business to business. Expenditure must be "wholly and exclusively" incurred for trading (business) purposes for it to be claimed back for tax calculations.

HMRC insists that you declare all income but what you claim as expenses is up to you the partners, with just a few guidelines from HMRC.

Here are the main categories of expenses you may consider claiming: -

## Cost of sales

All the costs associated with acquiring the product or service that you sell, are allowable expenses.

- Cost of the goods sold
- Parts or materials used
- Packaging
- Labour for assembly or packing
- Subcontract costs (for someone else to make the product or do the job)
- Carriage or delivery
- Samples

## Wages & labour costs

The business partners are strictly owners of the business not staff, so even if you nominate a partner to receive a "salary", this is not included in the accounts as an expense but as a share of profits.

You can however employ others, including family members and civil partners of the business partners. It may be tax efficient to employ family members as they are not subject to minimum wage rules like other employees.

Do remember that there are lots of special rules if you employ people – reporting requirements under PAYE, minimum wage and pension regulations, as well as health and safety and employment rights.

All such costs of employing business workers are allowable business expenses, but not domestic workers.

## Travel

The travel expenses rules for self-employed are different from those of a limited company. It is important to understand the "base of operations" from where a self-employed individual carries out their business. There can be multiple "base of operations" and these can include areas instead of a single location. In the case where home is treated as a base of operations then business travel from there will be allowable to a different location, however travel between home and any "base of operations" is not an allowable expense.

## Subsistence

When traveling on business (see above definition), you may have to refuel, with a coffee or a meal. This is called subsistence. HMRC does not allow subsistence costs that are wholly or partly normal living costs and has hence restricted allowable subsistence expenses to those associated with:-

- overnight business trips, or
- itinerant workers (e.g. commercial travelers), or
- trips outside your normal working pattern,

## Vehicle costs

Business partners may use a van or car for work. There are two different methods of claiming these travel costs and it is important to follow the same method for the life of that vehicle.

Mileage rates – Calculating using the mileage rate method is simple. Here, a log is maintained (including journey date, beginning and ending point, purpose of travel, and number of miles traveled) of all the allowable business journeys. Currently, the computation works as follows: For the first 10,000 miles – 45 pence per mile, and 25 pence per mile thereafter. dns accountants can help with a free mileage log. The mileage rate is most suitable if the VAT taxable income of the business is below the VAT threshold rate of £85,000.

Actual costs less private element deduction – This method is a little complicated, but more tax effective. Under this method, the vehicle is effectively purchased/leased by the partnership as a partnership asset. Interest costs can be included, and the purchase price is treated under "Capital Allowance" rules. Vans bought will be eligible for an annual investment allowance (AIA), whereas, a car won't be eligible for an AIA. The main element when using this method is, computing the percentage of the vehicle that should be disallowed because of private use.

These computation methods are only applicable to the self-employed. The rules are different if operating through a limited company.

## Tax tips

- Buy a hybrid car or a vehicle with Co2 emissions of less than 50gm/km and get 100% tax relief up front
- Claim mileage NOT car and fuel expenses if you have a new car as you can claim more.
- Don't forget to claim back VAT on mileage.
- Claiming fuel, repairs, and maintenance for older cars and newer expensive cars is more tax e cient.
- When claiming VAT on mixed use fuel, don't forget to pay scale charges.

## Business premises costs

If your business has dedicated business premises, then all the running costs may be tax allowable e.g.

- Rent
- Landlords Service charges
- Business rates
- Utilities – gas, electricity water, sewage
- Cleaning
- Interest on mortgage

There is also a new allowance for building your own business preemies/factory etc.

Please see below for shared use premises

## Working from home

Working from home or the freelancing model is very common with the millennial generation. Hence, it becomes important to understand the costs related to using the home as an o ce. Let's study this through the two standard models:

HMRC Simplified Expenses – If you work at home for 25 hour or more per month then HMRC have given us a flat rate expense allowance that may be claimed

| Hours of business use per month | Flat rate per month |
|---|---|
| 25 to 50 | £10 |
| 51 to 100 | £18 |
| 101 + | £26 |

Apportionment of actual costs – A portion of your home running costs can be allocated as allowable expenses to the business.

A sole trader or freelancer needs to work out, what the actual cost is for running the business from home. If you own the property, then costs can include mortgage interest but not capital repayments. If the property is a rented one, the rental charges need to be captured. Also, you can include costs that are paid jointly but not costs that are being paid completely by someone else. Other costs that can be included are insurance, council tax, gas, cleaning, service charges, and electricity.

Now, a partner, with the agreement of his fellow partners, needs to calculate what proportion of the cost would be fair to apportion to the business.

A simple method of computing this is:

- count the number of rooms in the house excluding hallways, bathrooms, and kitchens e.g.6
- estimate the number of rooms used for business, taking into account time used for business verses time used for other things e.g.50% of dining room plus 100% of study = 1.5 rooms
- apportion above captured costs to the business in this proportion i.e. 1.5/6

An important tip: The entire o ce room should not be used for business. A small portion of the room must be kept for personal use as this protects the sole trader from possible capital gains.

## Insurance

All partners are jointly and severally liable. Hence you may wish to take out some insurance to protect your personal property from business risks e.g.

- Business Equipment insurance
- Vehicle insurance for business journeys
- Product liability insurance
- Professional Indemnity insurance
- Tax investigation insurance
- Employers liability insurance
- Employee insurance – sickness etc.
- Keyman insurance

Most of the above are allowable business expenses. But there are more you may wish to consider that are usually not allowable as business expenses

- Life Insurance
- Income protection insurance

dns can help you find the right insurance for you and your business

## Broadband, telephone and mobile bills

Partners, with the agreement of their fellow partners, can claim some of their phone expenses as part of the business expenses. But the complicated part is to understand what proportion to claim as the phone is usually used for both personal and business purposes. As best practice, a sole trader should do a thorough review of a couple of bills during the year and highlight the business phone calls and personal calls. This percentage can be used to arrive at an amount that can be claimed as a business expense. A partner must remember that the percentage may be verified by HMRC in the case of an enquiry, so it is important to keep a note of the business phone expenses workings.

## Stationery & office costs

As a partner you have to run the business as well as do work for clients. As such you are likely to have an office and a computer and a place to store papers/invoices.

The costs associated with this office are also business expenses and so allowable expenses e.g.

- Stationery & printing
- Postage
- Desk, Chair, Filing Cabinet etc.

## Computer equipment & software

Most businesses now use computers or gadgets. If these are only used for business, then they are fully tax allowable. However, if dual purpose then the costs need to be apportioned and only the business part is allowable.

If a large piece of equipment is purchased, that is likely to last a few years, then it may be treated under the capital allowance rules – but under current rules is still fully tax deductible on purchase – up to cost of £1m

Similarly, for all software for these gadgets – be it a cheap app or an expensive essential tool of your trade.

## Repairs, tools & equipment

Tools of the trade are what you use to do the job. They may have a lot of consumables e.g. sand paper, fuel or parts that require regular replacement. All of these are allowable expenses, as well as regular maintenance and repairs.

Do not forget the safety equipment that may go with these tools, or any other protective clothing required for the business these are allowable too.-

Large pieces of equipment e.g. plant, along with any transport or installation costs, are also allowable expenses although they too may be treated under the capital allowance rules. If that plant can be split into parts with different life expectancy, then those parts may be treated separately, but still allowable up to £1m until December 2020.

## Property repairs and renovations

Repairs to business premises are allowable business expenses. Renovations however are a specialist area that needs detailed examination, as there is no allowance for property purchase or rebuilding work, but there is for integral features within a property and for building new premises

Care must also be taken if there is any private element to these works.

## Advertising & marketing

A sole trader has to find his own work. To do this he has to advertise, promote, network. All of these are legitimate business expenses. E.g.

- Press adverts
- Sponsorship (as long as no personal element)
- Membership of business clubs
- Attendance at business or trade events

- Leaflets/Letterhead/Business cards
- Branding/Design/Copywrite/Logos
- Web or google advertising
- Promotional products, T-Shirts, Mugs etc.
- Signage
- Google Pay per click / SEO / Linked in promotion
- Telemarketing expenses
- Mail Shots
- Banner Advertising
- Events / Exhibitions

## Business entertaining

Entertaining is a legitimate business activity, this can include a simple coffee or outing to the rugby, or bottle of whisky. This is all speculative, with the hope of winning new business. Bribes are specifically illegal.

However, HMRC do not want to be seen to promote entertaining so although a legitimate business expense, all costs of entertaining or providing gifts to third parties, are not allowable for tax purposes. Do still record them, separately, in order to monitor your business activities and then disallow them on the tax return.

## Interest & finance charges

Cost of borrowing money that can be seen to be used for business is allowable – e.g. Interest, loan arrangement fees, overdraft arrangement fees etc., but not actual repayments.

Costs incurred to make business purchases/transactions are allowable business expenses e.g. Business bank account charges, PayPal fees, card collection costs.

Costs of using a personal credit card are not allowable.

## Accounting fees

If a partner engages an accountant like dns accountants, then the accounting fees for work on partnership accounts can be claimed as a tax deductible expense. Conversely, if there is any fee related to the preparation of a personal tax return, this is not an allowable expense. Practically this means that, until the time that there is self-employed/partnership income on the tax return, the accounting fee cannot be claimed.

## Legal fees & bad debts

Legal fees can be incurred for many different reasons. If business related, then they are probably allowable expenses, but maybe not against income. So, remember to note what fees are for when recording them in your books.

Those incurred in trying to recover bad debts, and the unrecovered bad debts themselves are allowable. So do not miss out these bad sales from your income – add them in and then claim them as bad debts, in order to justify all associated costs.

## Training & other expenses

When starting up one of the extra significant cost may actually be training for your profession, which may be allowable if in anticipation of this business.

The above is not an exhaustive list of all allowable expenses, but a flavour to get you going under each of HMRC basic headings. The fundamental rule remains that any expenses incurred wholly and exclusively for the business can be claimed as expenses. So, if you are not sure if an expense is business or personal always ask yourself if this expense is wholly and exclusively for business or not? Remember expenses with dual purpose or driven by private needs may not be claimed as business expenses.

dns and its accountants are always there for any support or clarification.

# Tax tips for partners

There are some perfectly legal, highly lucrative ways to ensure you minimise your tax bill. Take a look!

## Allowances, tax reliefs etc.

- Agree with your fellow partners the expenses you all wish to claim e.g mileage to clients,
- Agree equivalent budgets for personal preference allowable expenses e.g gadgets
- Make sure you have claimed all your business expenses, even if it takes you into losses this year
- Remember to claim start-up costs (costs incurred before the first sale but in anticipation of it)
- Put your family to work in your business to use their tax allowances
- Equitably reward investment to use interest allowances
- Share your assets/income to use spouse allowances.
- Apply for married couples allowance transfer if your spouse has little income and you are not a higher rate tax payer
- Claim Working Tax Credits if your family earns below £16,105.
- Claim child tax credits if your family earns below £60,000
- Make regular gifts now, out of your ordinary income to reduce IHT liability.
- Invest in EIS and VCTs and claim higher rate tax reliefs
- Claim the extra relief for paying into pensions or making gift aid donations
- Invest in Plant and Machinery and claim capital allowances on up to £1m.

## Pensions, ISAS and life insurance

- Invest in Pensions and save higher rate taxes. Even if you are a basic-rate tax payer, the government tops up your basic-rate tax to your pension plan.
- Use your ISA Limits and build a pot of tax-free income.

## Others

- Do not hide your income. Always make a full disclosure on you tax returns to avoid prosecution and penalties.
- Always keep complete and full records.
- Always check PAYE coding notices and make sure they are correct.
- Consider selling and reinvesting shares in portfolios to use annual capital gains tax allowances
- Consider converting from a sole trader to a limited company if your profit is more than £20K per annum

# Employing people

Are you a partnership that is looking to expand? Hiring people to help you run the business is the next logical step to ensure future growth.

However, one thing you may be wondering about is how this affects your status. Can you employ people as a partnership or does that turn you into a company, or something else?

The short answer is yes, you can employ people and remain a partnership. There's no need to set up a limited company if you don't want to.

Partners are not employees but business owners. If you take on another business partner/owner then this changes the partnership structure but is not the same as employing staff.

You can choose to employ people on a permanent, part-time or freelance basis– whatever suits you best.

So, now you know you can hire people and maintain your status, it's time to ensure everything is done above board.

dns group can assist with payroll and staff pension calculations when you are ready to start

## Tax tips

- Employ two part-timers rather than one full-timer; in this way, you use two allowances and pay less tax.
- Payment on Termination of employment is tax-free. Why not look into it?

# VAT registration

Businesses must register for VAT (Value Added Tax) with HMRC, if the VAT taxable income is greater than £85,000. The business receives a VAT registration certificate when they register the business with HMRC. The certificate confirms the VAT number, details for submission of first VAT return and payment, and effective date of registration. The effective date is when the business is officially subject to VAT rules. A business can register voluntarily, apply for a VAT registration number, if the turnover is less that £85,000, except if all sales are VAT exempt. The business VAT registration certificate can be received within 14 working days, nevertheless it can take longer. The certificate is sent either to the VAT online account or by post if it's not an online registration or through a third party.

## Compulsory registration – why should I register for VAT?

A specific partnership needs to register for value added tax if:

- Taxable VAT turnover is greater than £85,000 in a 12 month period
- Goods are received in the United Kingdom from the European Union and the value is more than £85,000
- The partnership anticipates that turnover will cross the threshold in the next 30 days alone.

There is a zero threshold for businesses based outside the United Kingdom; the business must immediately register for VAT if they have supplied any goods or services in the United Kingdom or anticipate doing so within the next 30 days.

A partnership may also be required to register for VAT if a business has been taken over.

## Late VAT registration

If a partnership does not register for VAT within time, it is liable to pay a penalty depending on how much VAT is due for the period of the delay. As stated earlier, it is imperative for the business to register for VAT within 30 days of the business turnover crossing the threshold.

If the taxable turnover of the business goes over the threshold temporarily, the business can apply for a registration exception. A written application needs to be sent to the HMRC with facts showing why the threshold will not be crossed in the next 12 months. If the HMRC is convinced with the written application, they will send a written confirmation else, the business will need to register for value added tax.

## VAT responsibilities for a business

From the effective date of VAT registration the business must:

- Charge the correct VAT amount on the invoice
- Timely file VAT Returns
- Regularly clear all VAT dues to HMRC
- Maintain VAT records

Until a partnership is VAT registered, it should not charge or collect VAT on sales. However, the business is liable to pay value added tax on all sales made after the effective date of registration to HMRC.

## VAT threshold computation

The VAT taxable turnover is the full value of goods and services sold that aren't exempt from VAT. The UK VAT threshold for registration is £85,000 (from 1 April 2017). A trader is required to register with HMRC for VAT if their total VAT taxable turnover over all their businesses exceeds this threshold in a 12 month rolling period.

To calculate if you've exceeded the threshold in any 12-month period, you need to add together the total value of sales of your products or services that aren't VAT exempt, this will include the following:

- Goods that are hired or loaned to customers
- Business merchandise used for personal reasons
- Goods bartered or part-exchanged, or given as gifts
- Services received from businesses in countries that you had to 'reverse charge'
- Building work over £100,000 your business did for itself

## HMRC VAT registration process

Almost all businesses can register for VAT online, even partnerships; and a group of companies can register under one VAT number. Once the trader is registered online and has a VAT online account, he will need to submit VAT returns to HMRC as and when they are due. Businesses can even appoint accountants like dns accountants or agents to help them submit the VAT returns on time, meeting all deadlines, and interact with HMRC on behalf of the business.

It may benefit some businesses to be VAT registered as they can recover the VAT on assets and overheads, especially if their sales are zero rated e.g. farmers.

## VAT schemes

The basic rule for VAT return preparation is to record the VAT on the accruals basis i.e. record each individual sales and purchase invoice based on invoice date and then report the total for the VAT period (monthly, quarterly or annually as you choose). However, there are various VAT schemes you may choose to join that may make life simpler, aid cash flow or even pay less VAT. Here are a few to think about but your accountant will help you assess which is best for you:-

- Cash accounting – you record and/or report VAT based on payment date not invoice date
- Flat rate scheme – account for VAT on sales and assets only – not purchases
- Second Hand Margin Scheme – account for VAT on profits not sales and purchases
- Retail Margin scheme – account for VAT pro-rata on total takings when selling goods at different VAT rates

## VAT registration check – how long does it take to get a VAT registration number?

Usually, HMRC takes a month to process VAT applications, but it can take longer if HMRC needs to carry out further checks. The government of the United Kingdom claims that it can even take as little as 14 working days to process an application. HMRC intends to process 70% of applications within 10 business days and most are processed within 30 days. From the time of applying for VAT registration and getting the VAT registration number, the business must keep account of and pay all VAT dues. The business becomes liable to keep records of all the invoices from the time of voluntary registration for VAT. It actually does not matter when the business applied for registration or the date the VAT registration number was received. Business can reclaim any VAT paid on purchases from the date of registration. To do so, records of all inwards invoices from suppliers need to be maintained.

## Your first VAT return

Once you have registered for VAT, then you will receive your VAT registration certificate telling you when your first return will be due. But there is a lot to get set up before this.

Firstly, you need to know your business – and the VAT rates that could be associated with the various products or services you will be providing. HMRC produce a lot of industry specific notices to help you get it right. dns and its accountants are always there for direction, support or clarification.

When raising invoices, you need to add the right VAT – the right set up of software can really help here.

On a regular basis you will need to submit returns to HMRC, electronically from your bookkeeping software. To do this you will need to be registered with HMRC for MTD and have connected your software. dns accountants can do all this for you.

Getting your bookkeeping right, from the start, is key.

- Remember to collect VAT receipts now you are registered
- Scan and store for easy reference
- A UK VAT number is required to claim the VAT paid
- VAT can only be claimed if charged e.g. there is no VAT on rail fares or magazines
- Small till receipts do not need to show the VAT separately but it may still be claimed e.g. coffee shop
- Use your software to help you be consistent in treatment
- Check VAT status for new suppliers or products

dns and its accountants are always there for any support or clarification

Your first VAT return can include some pre-registration VAT that you may have paid; so, it is worth taking the time to find the receipts to back up such a claim.

## Pre-registration VAT may be claimed on

Stock and business equipment, you have on registration date and you bought less than 4 years previously e.g.

- Van bought new 3 years ago (but not a car)
- New tyre you purchased for it last year (but not labour)
- Stock of brochures
- Half box of screws in stock
- Ink cartridge you bought yesterday
- Desk and shelves bought last year (but not installation or decoration costs)
- Costs of goods in stock awaiting sale
- Costs of part completed goods and materials

Services bought and used by the business (not customers) within the previous 6 months e.g.

- 6 months telephone bills
- Own website design paid for 4 months ago (not clients)
- Accountancy bills in last 6 months (based on invoice date)
- Adverts billed in last 6 months (not publication date)
- Own business Van service last month (labour element only – parts may come under equipment rule)
- Training bills in last 6 months

## VAT tips

- The VAT flat-rate scheme may help you save VAT.
- Remember to claim VAT on entertainment for overseas customers.
- Remember to claim VAT on expenses in relation to staff functions and o ce parties.

# How to calculate income tax on a partnership

Like sole traders, business partnerships only pay taxes on their profits. In other words, you only pay tax on income after deducting expenses.

The starting point will be a profit and loss account which is effectively the sales that the business has made minus the business' costs and overheads. However, some of these costs, although perfectly allowable for accounting purposes are not allowed as expenses for tax purposes. The rules here are complicated and it is important you get it right, so it is worth paying a professional for advice.

These figures which constitute the business partnership's profit and loss account are then reported to HMRC with adjustments, as the partnership's taxable profits, and formally split between the partners according to their agreement. The partners will then need to report their share of these profits on their personal self-assessment tax returns where they individually will account for the taxes thereon (Income Tax and National Insurance).

A Limited Liability Partnership has the added responsibility to prepare statutory accounts, which includes a balance sheet and partners accounts, and file this on public record at Companies House.

dns group offers small businesses with accounting services to help them stay compliant with the UK accounting legislation and tax rules. Our team of ACA's and CA's are up-to-date and stay on top of deadlines, eliminating the hassle of accounting obligations for small businesses and freelancers or contractors.

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## Award winning accountants

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