

GUIDE TO TAXATION FOR YOUR BUSINESS

2011/2012

This is a summary of some of the taxes that may affect you and your business. All the tax rates and thresholds are for the year ending 5th April 2012, or 31st March 2012 for companies.

PERSONAL TAXATION

Income tax thresholds:

Personal Allowance	0%	Up to £7,475 (£9,940 and £10,090 if over 65 & 75)
Basic Rate	20%	First £35,000 of taxable income
Higher Rate	40%	From £35,000 to £150,000 of taxable income
Additional Rate	50%	Excess taxable income over £150,000

Dividend ordinary 10% rate continues, higher rate of tax for dividend income is 32.5% and rises of 42.5% when falling in additional rate tax band. The personal allowance will be withdrawn at a rate of £1 for every £2 of income over £100,000 until it is completely eroded.

National Insurance – Employee and Employer:

	Employee's Contributions	Employer's Contributions
Up to Secondary Threshold (£136 per week, £7,072 per year)	0%	0%
Up to Primary Threshold (£139 per week, £7,225 per year)	0%	13.8%
Up to Upper Earnings Limit (£817 per week, £42,475 per year)	12%	13.8%
Above Upper Earnings Limit	2%	13.8%

National Insurance – Self Employed:

Class 2	£2.50 per week
Class 4	9% of profits between £7,225 and £42,475 and 2% above £42,475

Employees

Employees are paid and taxed through their employer's payroll scheme. Income tax and National Insurance are deducted from pay before it is received, the employer must then pay over the stoppages to the H M Revenue and Customs plus any employer's National Insurance.

If an employee has any other income that is not taxed at source, a Self Assessment Tax Return needs to be completed.

Self Employed

Weekly Class 2 National Insurance contributions are payable by all self employed persons, except those holding an exemption certificate for small earnings.

Annual business accounts are prepared and trading results reported on the Self Assessment Tax Return, income tax and Class 4 National Insurance contributions are calculated according to profit levels. It may be advisable to put funds aside for any tax payment.

Shareholders

Shareholders receive a net dividend with a non-repayable 10% tax credit attached. Basic and lower rate taxpayers have no further tax to pay, but a higher rate taxpayer has an additional 22.5% liability, and additional rate taxpayers have an additional 32.5% liability. This must be reported on a Self Assessment Tax Return. It may be advisable to put funds aside for any tax payment.

Self Assessment

A Self Assessment Tax Return covers the year to 5th April each year, and must be completed, at the latest, by 31st January in the following year. This date is also the deadline for paying any outstanding tax.

Payments on account may be required by the H M Revenue and Customs, being two equal payments of tax for the year based on the previous year's tax bill. The payment dates are 31st January during the tax year covered by the return and 31st July, 6 months later. Any amounts payable or repayable are calculated once the return has been completed.

BUSINESS TAXATION

VAT

The VAT threshold is £73,000.

Once taxable supplies exceed the threshold in any twelve-month period, a business must register for VAT. Some businesses make exempt supplies and do not need to register.

The standard rate of VAT is 20% and is collected from the customers of the business within the selling price. This is usually paid over to H M Revenue and Customs each quarter, net of VAT claimed on expenses, and a VAT return form completed. Small businesses with turnovers up to £150,000 may choose to operate a flat rate scheme based on a percentage of turnovers. The deadline for completing the return and making payment is one month after the end of the quarter. It may be advisable to put funds aside for this payment.

Corporation Tax

Corporation tax thresholds:

Small Companies Rate	20%	Profits up to £300,000
Main Rate	26%	Profits above £1,500,000

Marginal relief applies where profits fall between the bands, easing the transition between the different rates of tax.

Companies have their own taxation based on their profits. The profits are taxed before dividends are paid to shareholders, and therefore paying a dividend does not reduce the corporation tax liability.

Corporation tax is due nine months and one day after the end of the company's accounting period, and a return form must be completed within twelve months of the end of the accounting period. It may be advisable to put funds aside for this payment. Large companies may have to pay their corporation tax by quarterly instalments.