ACCOUNTANCY SERVICES

Beginner's Guide to Setting Up your Business in the UK

A simple guide to choosing a business structure, registering your business, and understanding tax responsibilities.

Choosing a Business Structure

When starting a business, selecting the right legal structure is crucial. Each type has different requirements, advantages, and disadvantages.

Sole Trader

A sole trader is self-employed and personally responsible for business profits, losses and debts. Sole trader report their profits for the tax year, which runs from 6th April until 5th of April and pay tax on any profits made. A self-assessment tax return should be computed and submitted to HMRC on an annual basis by the 31st Jan, following the end of the tax year.

What to Consider:

Unlimited Liability: You are personally liable for any debts the business incurs.
Tax: You pay income tax on your profits, not corporation tax.
Administration: Minimal paperwork and low setup costs.

How to Register:

To register as a sole trader, you need to inform HM Revenue and Customs (HMRC) that you are self-employed. You can do this online at www.gov.uk/set-up-sole-trader.

Provide your **National Insurance number**, personal and business details, and start date.

Advantages:	**Disadvantages:**
✓ Full control of business and profits	✕ Unlimited liability – personal assets are at risk
✓ Simple to set up with minimal admin	✕ Harder to raise funds from banks/investors
✓ No company accounts or fees required	✕ Responsible for all business debts

Partnership

A partnership is when two or more people run a business together. The partnership profits (or losses) are then divided to each partner on their self-assessment tax return. A partnership return along with a self-assessment for each partner must be computed and submitted to HMRC for the tax year (6th April to 5th April). The deadlines for the partnership return and self-assessment are both 31st Jan following the end of the tax year.

What to Consider:

Unlimited Liability: Each partner is personally liable for the business's debts.
Partnership Agreement: It's advisable to have a legal agreement outlining profit-sharing, responsibilities, and dispute resolution.
Tax: Each partner pays income tax on their share of the profits.

How to Register:

Partners must register with HMRC as self-employed. You can register online at www.gov.uk/set-up-business-partnership. Consider a **partnership agreement** to outline responsibilities.

Advantages:	**Disadvantages:**
✓ Shared workload and decision-making	✕ Unlimited liability – partners are responsible for debts
✓ More expertise and experience available	✕ Potential conflicts between partners
✓ Easier to raise capital with multiple partners	✕ All partners are liable for any one partner's negligence

Limited Company

A limited company is a separate legal entity from its owners (shareholders). The company is managed by directors and owned by shareholders. It offers limited liability, meaning the owners are not personally responsible for the company's debts. A limited company has Directors, who can be the same, or different to it's shareholders. Limited Companies must abide by the Companies Act 2006.

How to Register:

Register with **Companies House**: www.companieshouse.gov.uk

Registration costs **£12 online** or **£40 by post**.

Advantages:	Disadvantages:
✓ Limited liability – personal assets are protected	✕ More admin and legal requirements
✓ Company name is legally protected	✕ Corporation tax on company profits
✓ Can raise funds through shares	✕ Must file annual accounts with Companies House

Community Interest Company (CIC)

A **CIC** is a business that benefits the community rather than private shareholders.

How to Register:

Register with **Companies House** and **CIC Regulator**: www.gov.uk/set-up-social-enterprise

Advantages:	Disadvantages:
✓ Limited liability	✕ More regulations than a sole trader or partnership
✓ Can apply for grants and funding	✕ Cannot distribute profits to shareholders (capped)
✓ Recognised as a social enterprise	✕ Profits must be reinvested into the community.

Business Taxes & Financial Responsibilities

Rates & Thresholds

Sole Traders (Self-Employed Income Tax & National Insurance)

Tax Band	Income	Tax Rate
Personal Allowance	Up to £12,570	0%
Basic Rate	£12,571 - £50,270	20%
Higher Rate	£50,271 - £125,140	40%
Additional Rate	Over £125,140	45%

National Insurance Contributions (NICs) for Sole Traders:

- **Class 2 NICs:** Flat rate of **£3.45 per week** (if profits exceed **£6,725**)
- **Class 4 NICs:**
  - **9%** on profits between **£12,570 - £50,270**
  - **2%** on profits over **£50,270**

Limited Companies (Corporation Tax & Dividends)

- **Corporation Tax: 25%** on profits (unless eligible for small profits rate)
- **Dividend Tax Rates:**
  - Basic Rate: **8.75%**
  - Higher Rate: **33.75%**
  - Additional Rate: **39.35%**

For updates, visit: www.gov.uk/business-tax

Key Steps to Set Up Your Business

✅ **Choose your business structure** (Sole Trader, Limited Company, etc.)
✅ **Register with HMRC or Companies House**
✅ **Set up a business bank account**
✅ **Understand your tax obligations, engaging an Accountant.**
✅ **Keep financial records and file tax returns**
✅ **Consider business insurance**

For more details, visit: www.gov.uk/set-up-business