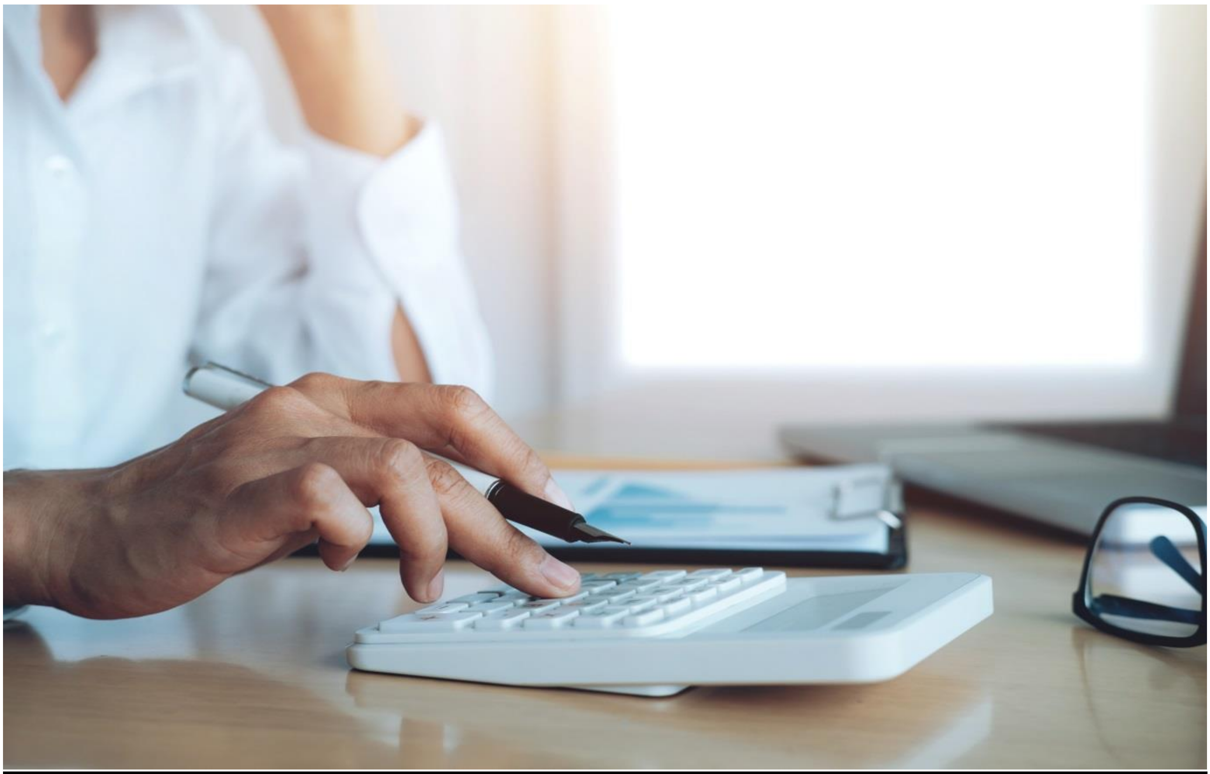
The Common Tax Mistakes That Business Owners Make



As a business owner, you juggle many roles and when there are urgent business tasks to do, spending time with your accountants may not be your number one priority. However, if you're not regularly talking to your tax advisor/accountant and getting tax planning advice from them, then there's a danger of making some of the common tax mistakes.

Every business makes mistake at some point or the other. Some pay too little, others pay too much, while others fail to make use of the tax allowances that they're entitled to.

While your customers and clients may not feel upset by the occasional slip-up, the tax authorities may not ignore your wrongdoings. Major errors can lead to tax investigation by the taxman and it may prompt them to take aggressive legal action, including fines, surcharges and penalties, and then there is even the threat of winding up your business.

Read on to learn about common tax mistakes made by UK businesses and ensure your business isn't doing anything that could upset the taxman to take action.

1. Assumptions

Many business owners assume that they know how the tax rules work, however the reality is exactly the opposite of that. Many tax rules, rates and reliefs change every year – sometimes more often. They can be influenced by cases going through the tribunals and courts, by HMRC policy changes and by Government announcements. Hence, when in doubt, it is always advisable to talk to your tax advisor/accountant and get a clear picture before you make any business decision.

2. Not Using Accounting Software and Qualified Accountants/Tax Advisors

Although it may seem like you're saving money by not taking the help of tax advisors/accountants and by not using the proper accounting software. However, on the contrary, you could actually end up losing more money in the long run. Tax advisors/Accountants have the specialist knowledge to ensure that your self-assessment is done correctly and they will also help you get all the deductions you're entitled to. Accounting software will also help you track all of your invoices, payments and expenses properly; software is particularly useful when it comes to working out VAT discounts, which is often especially tricky for business owners.

3. Poor Record Keeping

You need to keep proper and complete records. When claiming or incurring expenses for business, ensure that the primary purpose is for the business and you have all the supporting documents to back this up. Talking about supporting documentation, keeping and collating all the invoices/receipts is very important. Not keeping them is a common mistake. The next time you fail to get that VAT invoice, consider whether you are ready to pay for it from your own pocket. Here again, your accountant will be able to advise you as to which records to be maintained and how. The software will also come to your aid.

4. Not Declaring All Income

There are severe penalties for failing to declare all relevant income and Capital Gains. For deliberate errors, e.g. omitting a source of income on purpose, you could potentially be prosecuted. Types of incomes/capital gains that you should declare are Income from employment, Pension income, Property income, Capital gains, Interest and dividend received etc.

5. Claiming Incorrect Expenses and Letting Go of Allowances

There are complex rules governing what expenses you can deduct, and there are costly penalties for incorrect claims. If you are in any doubt, check with your accountant. It's far better to check these things carefully – some things you may think can be claimed, but in reality you can't. But there are also a few things you may not have thought to claim or use, for e.g. Allowances. If you don't use them you lose them. If you add up the income tax allowance, capital gains tax allowance, savings allowance and dividends allowance, you get a whopping £26,000 plus allowances in the year. It's not uncommon to see many of these go to waste. Also, don't forget child benefit allowance.

6. Selecting the Wrong Legal Structure

How you report and pay your taxes may often depend on the type of legal entity your business is viz. Sole-trader, Partnership or a Limited Company. Speaking to an accountant or tax advisor in UK before registering your company is the best way of avoiding any slip-ups in this respect. Another important and complex area is that of self-employment. While you may safely get your own status right as an entrepreneurial business owner, how confident are you that your freelance workers and associates are genuinely self-employed? Remember, HMRC is putting the onus on business owners to get this right.

7. Blurring the Lines between Business and Personal

Many start-up founders and small business owners make the major error of mixing their personal and business finances. This can cause substantial confusion when trying to sort your taxes, and can even lead to legal infractions or a loss of your company's status. To avoid this, open a separate business bank account right from the word 'go'.

8. Not Saving for Tax

Another big mistake that people make is failing to save for their tax bill. It can be a nasty shock and it can be stressful to try and scrape it together at the last minute to pay VAT, PAYE, Corporation Tax, Self Assessment etc.

The smart way to save for your tax bill is to set aside a percentage of everything you make. Put it in a separate bank account and do not touch it! That way, when the tax deadline comes around, you won't be joining all the others who are scrambling around trying to find a way to pay their bill.

9. Missing the Deadline

The deadline for submitting a paper return is 31st October following the end of the tax year. The deadline for filing your tax return online is 31st January after the end of the tax year. So a tax return for the 2018/19 tax year would need to be submitted online by 31st January 2020. If you miss the deadline, you will have to pay penalties which increase the longer you delay.

10. Letting a Tax Problem Fester / Hiding the Truth

Take advice of your tax advisor as soon as possible. Things will only get worse if you don't and then you may not have enough time to resolve things effectively and in your best interests. If you ever get a letter from HMRC, take advice of your tax advisor sooner rather than later.

We hope you don't make any of these mistakes during the course of your business or when you file your tax returns. Review your business plan and your tax situation so that you avoid making costly mistakes. If you feel that you need professional advice regarding your business, if you are ever unsure about taxes or as you write up your tax plan you may realise that you need some help at which point it's good to get advice from a reputed accountant. You can get in touch with us at 020-8239-4999 or you can visit our website www.doshiaccountants.co.uk. At Doshi Accountants, we have always set the bar higher and gained reputation for providing professional Accounting and Tax services to our clients for the past two decades. ***The tax you save may well be higher than our fees.***