

SME Newsletter

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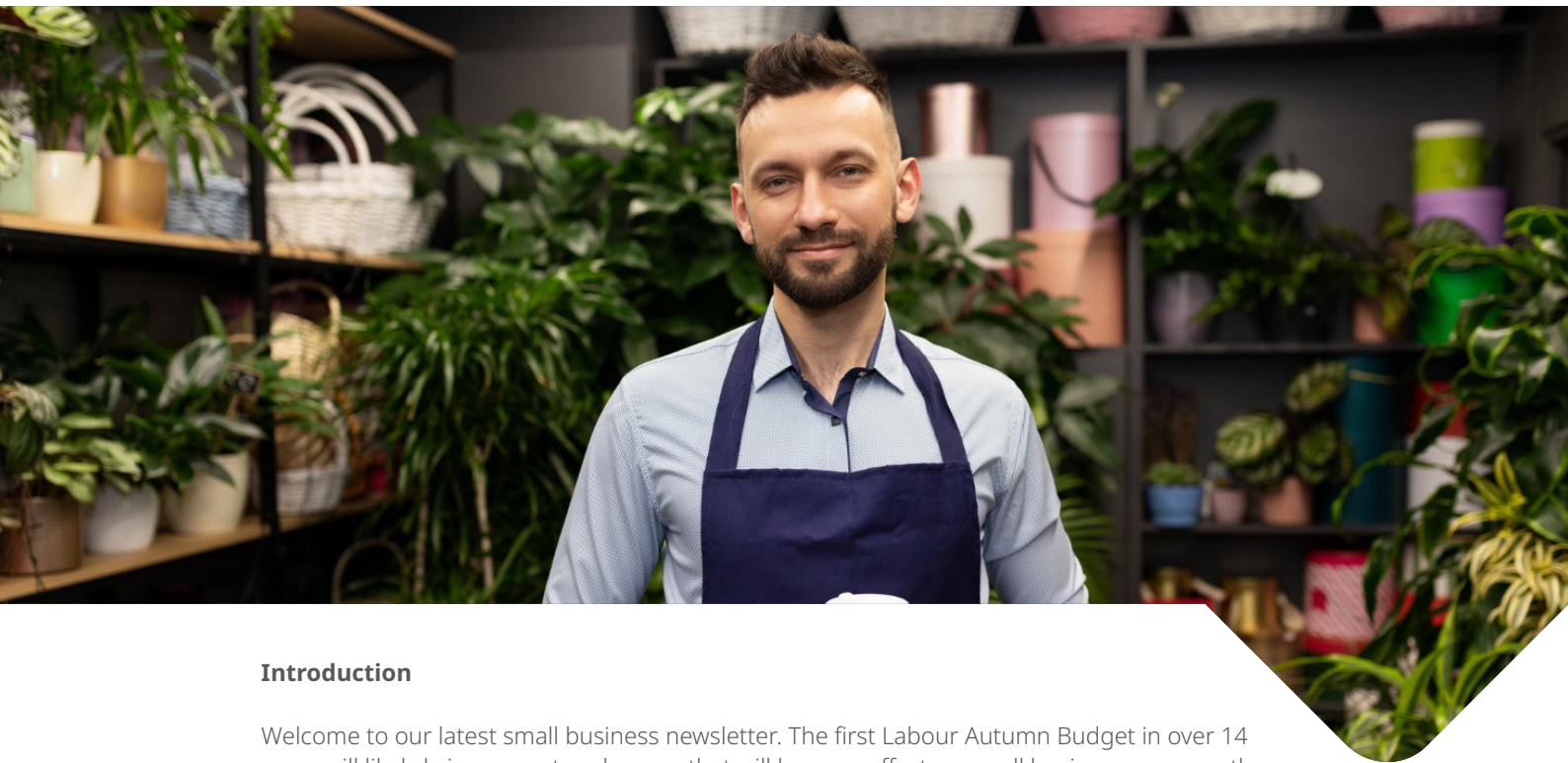


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small firm personal attention



Paul Wormald Partner



Introduction

Welcome to our latest small business newsletter. The first Labour Autumn Budget in over 14 years will likely bring some tax changes that will have an effect on small businesses across the UK. As always, we will be circulating our Autumn Budget summary shortly after the announcement so please look out for this.

In this edition of the newsletter we discuss:

- Sole trader vs self employed explained
- Reasons to file your self assessment tax return early
- Date announced for 2024 Autumn Budget
- Millions shifted into higher tax brackets
- Drive business growth with management accounts
- Small business energy standing charge sharply increases

As always we hope you enjoy the contents of this newsletter and as ever please do not hesitate to contact one of our experts if you have any questions about any of these articles.

Paul Wormald
Partner



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Sole trader vs self employed explained

Sole trader vs self employed

Working for yourself can be an appealing prospect as it provides you the opportunity to be in control of your own working life. If you are considering working for yourself you will need to consider whether you want to be self-employed or a sole trader. In this article, we explain what being a sole trader or self-employed means as well as explaining the key differences and the accounting and tax obligations.

To be a sole trader, you must be the sole owner of a business. If you have a business partner or partners, you are still classed as self-employed but you will most likely be either a 'limited company' or a 'partnership'.

Defining the differences between a sole trader and self-employed can be difficult to understand. For instance, a sole trader is always self-employed but not all self-employed people are sole traders.

What does it mean to be a sole trader?

A sole trader is an individual that owns their own business with no other partners or directors. They are the sole owner of their business. As a sole trader business, all debts the business may accrue also belong to the individual, along with any profits and associated taxes. This is due to there being no legal distinction between the business and the individual.

What does it mean to be self-employed?

Being self-employed is a general term that is used to describe all individuals that work for themselves, whether it be as the sole or joint owner(s) of a business.

What are the key differences?

The term "sole trader" refers to a specific type of business structure, indicating that the business is owned and operated by one individual. This structure is different from employment status, which can be categorised as self-employed or employed by another company.

The key distinctions include:

Sole trader: This is a business structure where one person is responsible for the business, including all its profits, debts, and liabilities. Sole traders run their businesses independently but can employ others if needed. They must file and pay tax themselves and are not part of the PAYE system used by employees.

Self employed: This term describes a self employed person, someone who operates their own business or works on a freelance basis, meaning they are not employed by another company. Self-employed individuals manage their own tax affairs, usually submitting annual tax returns to pay tax directly to the government. This status includes both sole traders and owners of limited companies.

Limited company owner: If a self-employed individual chooses to operate through a limited company, the business is a separate legal entity from the owner. This structure provides limited liability protection, meaning the owner's personal assets are not at risk if the company faces financial difficulties. The owner may pay themselves through a combination of salary and dividends and they must comply with corporate tax requirements.

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Sole trader vs self employed explained (Continued)

Accounting and tax obligations of being a sole trader

If you are a sole trader you have the following accounting and tax obligations.

- Register for self-assessment tax returns and calculate your tax obligations.
- Pay income tax and National Insurance contributions at the appropriate rate.
- Register and pay VAT, if your earnings exceed the VAT threshold.
- Keep detailed records of your business sales and expenses.

Accounting and tax obligations of being self-employed
Self-employed individuals have the same accounting and tax responsibilities as sole traders (listed above).

However, depending on the type of self-employed business they may be subject to additional accounting and tax obligations. For example, a limited company would be required to pay corporation tax which is a liability of the company. An individual is then liable to pay tax on their personal income, being dividends or payroll income received from the company, or profit shares received from a partnership.

Sole trader responsibilities

Although a single trader is the most effective approach to getting your company off the ground, it requires some administrative tasks. If you decide to start a sole trading business, you will need to register as a sole trader with HMRC. Unlike limited companies, however,

there is no requirement for businesses to be registered at Companies House. Because you are self-employed, you must file an annual Self-Assessment tax return by 31st January each year in respect to the previous tax year. Your Self-Assessment tax return includes your income tax and National insurance contributions.

Sole trader or limited company

If you are setting up a business on your own you can decide to become a sole trader or setup a limited company. There are distinct differences between the two and scenarios where one is better than the other and vice versa.

Here are some of the key differences between being a sole trader and a limited company:

- Being a sole trader is much easier as there is less admin which can save you time and money.
- In most scenarios, being a limited company is more tax efficient. However, if business profits are low being a sole trader can be more tax efficient, depending on the scenario.
- It is easier to pass on a limited company through sale or inheritance.



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Reasons to file your self assessment tax return early

It may be tempting to put off preparing your self-assessment tax return until later in the year. However, there are many benefits of submitting your tax return early and keeping on top of your tax affairs.

Peace of mind

Christmas can be a very busy time of year so we encourage everyone to submit their tax return before the hectic Christmas period. This will also help to avoid a stressful January as you rush to get your tax affairs in order and file your return by the 31st January electronic filing deadline. Rushing your tax return may result in mistakes and could lead to penalties.

Avoid incurring penalties and interest

The deadline for filing is 31 January (or 31 October for paper returns); miss it and you'll automatically be fined the infamous £100 penalty. Longer delays will result in further and more severe penalties from HMRC, so filing your tax return early will ensure you do not run the risk of missed deadlines and HMRC penalties and interest.

Know what tax you owe and plan ahead

If you file your tax return early, it does not mean you need to pay the tax at an earlier date. If you find out where you stand early, you can give yourself time to budget for paying the owed tax and to consider tax planning opportunities. For example, it may be possible

to reduce your payments on account if your income has reduced. In addition, if the return is filed early it may be possible for tax owed of up to £3,000 to be collected through the tax code operated on your salary or pension.

Get a quick tax repayment

If you are entitled to a tax repayment, you should receive this once your tax return has been submitted and processed by HMRC. It is therefore well worth filing your tax return early if you've overpaid tax as it will enable you to receive the refund sooner. In addition, as HMRC do not deal with as many tax returns during the summer months you are likely to receive the repayment much quicker.

Date announced for 2024 Autumn Budget

Chancellor Rachel Reeves has announced that she will deliver her Autumn Budget on Wednesday 30th October.

This will be Rachel Reeves' first Budget as Chancellor. It should also provide an insight into what direction the new Labour government will take on tax policy. So it will certainly be an interesting one!

What time is the Budget?

The Budget is expected to take place at about 12:30 pm, straight after PMQs.

The first part of the statement typically begins with a review of the nation's finances and economic situation. The statement then moves on to proposals for taxation.

The Chancellor's Budget speech usually lasts about an hour.

Expert commentary

Our tax specialists will be watching the Autumn Budget and will provide commentary on the announcements on our website and social media shortly after.

To pick up on our commentary, follow us on Twitter (@Hawsons) or LinkedIn.

If you would like to receive a summary of the announcements via email please sign up for our mailing list and select tax using the following link: <https://www.hawsons.co.uk/preferences/>

Millions shifted into higher tax brackets

As tax thresholds remain unchanged, the number of taxpayers paying the additional rate will exceed 1 million for the first time.

Tax revenue and increasing burden

This year, HMRC is projected to collect £63.2 billion in income tax, contributing to a total of £272.6 billion in tax revenue, which is an increase of £16.3 billion compared to the previous year. Since 2021, more than 1.77 million individuals above the state pension age have been required to pay income tax, a number that is expected to rise as thresholds are set to remain unchanged until at least 2028.

Wage inflation and expanding tax base

Due to wage inflation, it is estimated that an additional 4.4 million people will become liable for income tax this year as their earnings surpass the frozen personal allowance. The freeze on tax thresholds since the 2021/22 tax year has resulted in an additional 1.9 million people paying the higher 40% income tax rate, with another 310,000 expected to be affected this year.

Conclusion

The freezing of tax thresholds since the 2021/22 tax year has led to an increasing number of individuals being drawn into higher tax brackets as wages continue to rise.



Drive business growth with management accounts

Looking to drive business growth? There are many types of business growth such as organic, strategic and mergers to name just a few. In this article, we explore how conducting regular management accounts can give business owners the financial information they need to make key business growth decisions.

But firstly, we need to explain what management accounts are.

What are management accounts?

Management accounts are financial reports prepared for internal use by an organisation's management team to aid in decision-making and performance monitoring. They typically include detailed information on financial performance, budgets, forecasts, and key performance indicators. Typically management accounts are prepared on a monthly, quarterly or annual basis.

Management accounts typically include:

- Profit and loss account
- Balance sheet
- Cash flow statement
- Budgets and forecasts
- Key performance indicators (KPIs)
- Variance analysis
- Segmental analysis
- Sales and operational metrics
- Narrative reports

How can management accounts drive business growth?

Management accounts drive business growth because the regular financial data gathered helps management teams with:

Enhanced decision-making

Analysing regular financial data can enable business owners to identify trends and unlock business growth opportunities. For example, live data on product profitability can help business owners make decisions on business growth strategies regarding pricing, marketing and stock management.

Budgeting and forecasting

Management accounts, including forecast information, enables management teams to compare their actual performance against their budgeted targets, allowing them to keep track of their financial health and make decisions proactively to adjust their business growth strategy in real time. This helps to ensure resources are allocated efficiently, financial goals are met and business growth targets are achieved.

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Drive business growth with management accounts (continued)

Business performance monitoring

Regular management accounts allows for continuous business performance monitoring, helping businesses track their progress towards strategic growth objectives. This data allows decision makers to make informed decisions if performance deviates from expected growth targets or forecasts. Ongoing performance monitoring is essential for driving business growth and proactive management.

Cost control

When businesses do not fully understand their expenses it can be difficult to identify areas where costs should be reduced or further control is required. Management accounts provides decision makers with information to identify cost drivers and expenditure patterns. This provides them with a better understanding of their costs allowing them to implement cost control measures, if required. Controlling costs can make your business more profitable and is therefore a vital part of your business growth strategy.

Business growth strategies

Not only can management accounts give business owners the data to make informed decisions quickly, they can also provide long-term insights into financial trends and patterns. These long-term insights provide invaluable data for strategic business planning. Strategic planning which is backed by financial data is critical for

sustainable growth.

Why should growing businesses produce management accounts?

Clarity and transparency

They provide key employees with a view of an organisations financial position. This data and knowledge provides managers with a better understanding of how the business is performing. You will need all your employees pulling in the same direction to drive business growth.

Timely information

Make timely and up to date financial data available. This is crucial for enabling businesses to respond swiftly to changes and make decisions based on current information. This agility can give you a competitive edge for driving business growth.

Proactive management

They provide management the opportunity to be proactive. Regular insights into financial performance can identify problems and opportunities quickly. This enables management to take informed decisions to adapt to any changes the business may experience.

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Drive business growth with management accounts (continued)

Resource allocation

Management accounts can help identify the most and least profitable areas of a business. Once these areas have been identified, resources can be allocated more effectively.

Regulatory compliance

While primarily for internal use, management accounts also help businesses stay compliant with regulatory requirements. Accurate and up-to-date financial records ensure that businesses meet legal obligations, avoiding penalties and maintaining a good standing with regulatory bodies.

Investment and financing

If you are seeking investment or finance to grow, you will need to present detailed financial information as part of any assessment by an external body, such as investors or banks, before they will commit any funds. Preparing regular management accounts will demonstrate the latest profitability and financial health of the business which may not yet be public information through the business statutory accounts. It also helps to show a high level of financial discipline and operational efficiency. This will improve your chances of securing investment or finance.



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Small business energy standing charge sharply increases

Small businesses across the UK have seen energy standing charges increase very sharply over the past few months with some reporting increasing of over 1000%. Furthermore, 62% of small businesses have said that the ever increasing cost of utilities continues to one of the main drivers for increased business costs.

Ofgem (energy regulator) are yet to take any serious action against energy companies hiking up standing charge prices. The Federation of Small Business has called for Ofgem to take some action and address this issue more transparently.

What is an energy standing charge?

The energy standing charge is a fixed daily fee imposed by energy suppliers to cover the cost of supplying energy to a property, regardless of the amount of energy consumed.

How are the high energy standing charges affecting small businesses?

This is having a huge impact on small businesses energy bills because there is nothing they can do to reduce energy suppliers standing charge. SME's can choose to limit their energy consumption to reduce their bills, however, forcing small businesses to reduce their energy consumption can lead to reduced growth, confidence and the ability to invest.

What about the energy price cap?

Unfortunately, business energy customers are not covered by the energy price cap as this only applies to domestic use. Therefore, business energy tariffs can increase standing charges and consumption rates at any time if the business is not on a fixed tariff. Some businesses believe that this is the reason they have seen their standing charge increase because energy suppliers are unable to increase standing charges for domestic customers.

What are standing charges used to fund?

Energy firms use standing charges to fund the maintenance and upkeep of the energy infrastructure, including the distribution network, and meters, and ensuring reliable supply to customers. Additionally, standing charges contribute to covering administrative costs associated with billing and customer service.

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Small business energy standing charge sharply increases (continued)

How can small businesses reduce their energy costs?

Small businesses can reduce gas and electricity bills by implementing various strategies such as conducting energy audits to identify areas of inefficiency, investing in energy-efficient appliances and equipment, utilising programmable thermostats and smart lighting systems to control usage, implementing insulation measures to minimise heat loss, encouraging employee awareness and participation in energy-saving practices, negotiating competitive energy tariffs with suppliers, and considering renewable energy sources like solar panels where feasible. A number of local authorities also offer grants to help subsidise capital investment aimed at reducing energy consumption.

Additionally, regular maintenance of equipment and facilities can help optimise energy performance and reduce overall consumption, ultimately leading to cost savings for the business.

Get in touch



Our SME experts

Hawsons has a dedicated team of small business accountants in Sheffield, Doncaster, and Northampton. Our Small Business Services Department is dedicated to helping smaller businesses, providing a range of tax and accountancy services to small and growing businesses. We generally help sole traders, partnerships, and limited companies.

Starting up a new business is a challenging process and there are many aspects a small business owner must consider. We have a proven track record in helping new and small businesses get off the ground and continue to grow. Our small business accountants can help in all aspects of setting up and running your business.



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