Taxlab

CHARTERED CERTIFIED ACCOUNTANTS

BUSINESS STARTUP GUIDE

Starting a Business in the UK

A plain-English guide to structures, tax, registrations, VAT, payroll and your first 90 days.

2026/27 tax year

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Starting a business is a series of sensible decisions, not one giant leap. This guide walks you through them in the order you will meet them, in plain English. Where a technical term is unavoidable, we explain it straight away.

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Current figures

Every rate and threshold is for the 2026/27 tax year, 6 April 2026 to 5 April 2027.

Checked at source

Figures are checked against HMRC, GOV.UK and Companies House guidance.

Scotland included

Where the rules in Scotland differ from the rest of the UK, we say so.

1 Test the idea before you spend

Before you sign a lease, order stock or borrow money, prove that people will pay for what you plan to sell. A business stands on three things: **customers** who want it, the **resources** to deliver it, and **margins** that leave a profit after costs and tax.

You do not need a fifty-page business plan. A single page covering what you sell, who buys it, what it costs you to deliver and what you need to earn is enough to see whether the numbers work. Bring that page to your first meeting with us and we will stress-test it together.

A quick **SWOT** review helps too. It simply means listing your Strengths and Weaknesses (your skills, experience, contacts and cash) against the Opportunities and Threats outside the business (gaps in the market, competitors, rising costs and new regulations).

Hobby or business? The £1,000 trading allowance

The **trading allowance** lets individuals earn up to **£1,000 of gross trading income** in a tax year without paying tax on it or telling HMRC. *Gross* means everything you are paid, before expenses. If your income goes above £1,000 you must register for Self Assessment, but you can still deduct the £1,000 allowance instead of your actual expenses if that gives a better result.

> **GOOD TO KNOW**
>
> The £1,000 figure is a reporting threshold, not the test of whether you are in business. HMRC decides whether you are trading by looking at the **badges of trade**: whether you aim to make a profit, how often you sell, whether you buy things in order to resell them, and whether you improve items before selling. Someone clearing out their loft is not trading; someone buying stock to sell online usually is, whatever the amount.

The allowance does not apply to income from a partnership, or from a company that you or someone connected with you controls.

2 Sole trader, partnership or limited company?

Your structure decides who is responsible for the business's debts, what becomes public, how much paperwork you face and how you are taxed. You can change structure later, but moving assets into a company can have tax consequences, so it pays to choose well at the start.

	Sole trader	Ordinary partnership	Private limited company
Legal status	You and the business are the same person	Two or more people in business together. In Scotland the partnership is a separate legal person, but partners remain personally liable	A separate legal person, owned by shareholders and run by directors
Your liability	Unlimited: your personal assets are at risk	Unlimited, and "joint and several" (see below)	Limited to any amount unpaid on your shares, plus anything you personally guarantee
Privacy	Accounts stay between you and HMRC	Accounts stay private	Accounts, directors and owners appear on the public register
Setting up	Register with HMRC; no fee	Register the partnership and each partner with HMRC; a written agreement is strongly recommended	Incorporate at Companies House (£100 online); directors and owners must verify their identity
Yearly filings	Self Assessment return	Partnership return (SA800) plus each partner's own return	Accounts and confirmation statement to Companies House; accounts and Company Tax Return (CT600) to HMRC
Raising money	Your own funds and loans	Loans or new partners	Loans, or selling shares to investors

Sole trader

The simplest way to start. You can register in minutes, the bookkeeping is straightforward and the profits are yours. The trade-off is that there is no legal line between you and the business: if it runs up debts or is sued, your home, car and savings are exposed.

Ordinary partnership

A partnership works like a sole trader with more than one owner. The key risk is **joint and several liability**: each partner can be pursued for the whole of the firm's debts, not just their share. If your partner signs a bad contract in the firm's name, creditors can come to you for the full amount.

The law does not require a written partnership agreement, but we always recommend one. It should set out how profits are shared, who decides what, and what happens if a partner leaves, falls ill or dies.

Private limited company

A company is a separate legal person, so the business's debts are the company's, not yours. This is often called the **corporate veil**. If the company fails, you generally lose only what you put in, unless you have given personal guarantees to a bank or landlord, or have acted improperly as a director.

In return, you accept more paperwork, public disclosure at Companies House and firm statutory deadlines. Since 18 November 2025, every new director and **person with significant control** (broadly, anyone owning or controlling more than 25%) must verify their identity with Companies House, and a company cannot be incorporated until its first directors have done so.

> **TAXLAB TIP**
>
> The right choice depends on your expected profits, your plans and your appetite for risk. We are happy to model the options for you before you commit.

3 How you are taxed

How money travels from your customers to your own bank account depends on your structure. Mixing personal and business money is one of the most common mistakes new owners make, and one of the easiest to avoid.

Sole traders and partners

You pay tax on your **profit** (income less allowable business expenses), not on what you take out to live on. Profits are worked out for the tax year, 6 April to 5 April, and reported on your Self Assessment return. Everyone gets a **Personal Allowance** of £12,570 tax-free. It is reduced by £1 for every £2 of income over £100,000, so it disappears entirely at £125,140.

ENGLAND, WALES AND NORTHERN IRELAND

Taxable income	Rate
Up to £12,570 (Personal Allowance)	0%
£12,571 to £50,270 (basic)	20%
£50,271 to £125,140 (higher)	40%
Over £125,140 (additional)	45%

SCOTLAND

Taxable income	Rate
Up to £12,570 (Personal Allowance)	0%
£12,571 to £16,537 (starter)	19%
£16,538 to £29,526 (basic)	20%
£29,527 to £43,662 (intermediate)	21%
£43,663 to £75,000 (higher)	42%
£75,001 to £125,140 (advanced)	45%
Over £125,140 (top)	48%

You also pay **Class 4 National Insurance** on profits: 6% between £12,570 and £50,270, and 2% above that. These rates are the same across the UK. Class 2 National Insurance is no longer compulsory; if your profits are low you may choose to pay it voluntarily to protect your State Pension record, and we will tell you whether that is worthwhile.

Limited companies

A company's profits belong to the company, not to you. The company pays **Corporation Tax** on its taxable profits:

Taxable profits	Rate
Up to £50,000	19% (small profits rate)
£50,001 to £250,000	25%, reduced by marginal relief, giving an effective rate between 19% and 25%
Over £250,000	25% (main rate)

These limits are shared between associated companies (broadly, companies under common control) and reduced for accounting periods shorter than 12 months.

Paying yourself from a company

Most owner-directors take a mix of a modest **salary** and **dividends**.

Salary runs through a PAYE payroll and is a business expense, so it reduces the company's Corporation Tax. A salary of at least £6,708 a year (the **Lower Earnings Limit**) counts towards your State Pension without any National Insurance being paid. Employer National Insurance of 15% applies to salary above £5,000, and employee National Insurance of 8% applies above £12,570. The Employment Allowance (up to £10,500 off the employer's bill) is not available to a company whose only paid employee is a single director. The best salary depends on your circumstances, and we work it out with each client every year.

Dividends are payments to shareholders out of profits that have already been taxed, and they carry no National Insurance. From 6 April 2026 the rates rose by two percentage points:

Dividend income above the £500 dividend allowance	2026/27 rate
Within the basic rate band	10.75%
Within the higher rate band	35.75%
Within the additional rate band	39.35%

Dividend rates are UK-wide, so Scottish taxpayers pay these rates too.

> **PLAIN ENGLISH: WHEN CAN A COMPANY PAY A DIVIDEND?**
>
> Only from its **distributable reserves**: the profits it has built up over the years, after tax, less any losses. A company that makes a loss this year can still pay a dividend if it has enough retained profit from earlier years, but a dividend paid without enough reserves is unlawful and may have to be repaid. Each dividend needs a board decision and a dividend voucher.

Money you take that is not salary, dividends or a repayment of genuine expenses goes on your **director's loan account**. If you owe the company money at the year end and do not repay it within nine months, the company pays a temporary tax charge of 35.75% on the amount outstanding, refunded once the loan is repaid.

4 Registrations and deadlines

Missed deadlines bring automatic penalties from HMRC and Companies House, even when no tax is owed. Pin this table somewhere you will see it.

What	Who	Deadline
Register for Self Assessment	Sole traders and partners	5 October after the end of the tax year in which you started. Start in June 2026 and the deadline is 5 October 2027
File the return and pay the balance	Sole traders and partners	31 January after the end of the tax year
Payments on account	Sole traders and partners whose last bill was over £1,000	Two advance payments, each half of last year's bill, due 31 January and 31 July
Tell HMRC the company is liable to Corporation Tax	Limited companies	Within 3 months of starting to trade
Pay Corporation Tax	Limited companies (not large)	9 months and 1 day after the end of the accounting period
File accounts at Companies House	Limited companies	First accounts: 21 months after incorporation. After that: 9 months after the year end
File the Company Tax Return (CT600)	Limited companies	12 months after the end of the accounting period
Confirmation statement	Limited companies	At least once every 12 months, within 14 days of the review date
Register for PAYE	Any employer	Before your first payday

Notice that a company must **pay** its Corporation Tax three months before the return is due. Late filing penalties start at £100 for a Self Assessment return, £100 for a Company Tax Return and £150 for accounts filed late at Companies House, rising the longer they are outstanding.

Registering as a sole trader

You register online with HMRC and receive a 10-digit **Unique Taxpayer Reference (UTR)**. This number stays with you for life and is used on all your returns.

Making Tax Digital for Income Tax

From 6 April 2026, sole traders and landlords must keep digital records and send HMRC **quarterly updates** through compatible software once their **qualifying income** passes a threshold. Qualifying income is your total turnover from self-employment and property, before expenses.

Qualifying income	In the tax year	You join from
Over £50,000	2024/25	6 April 2026
Over £30,000	2025/26	6 April 2027
Over £20,000	2026/27	6 April 2028

HMRC uses the figures on your tax returns to decide when you must join, so a new business normally enters the regime once its returns show income above the threshold. Using compatible software from day one, such as Xero or FreeAgent, means there is nothing to change later. Partnerships are not yet included.

Incorporating a limited company

Companies House issues a **Certificate of Incorporation** and a company registration number; companies registered in Scotland have numbers beginning "SC". The online incorporation fee is £100, and the annual confirmation statement costs £50 when filed online. You will also need:

- An appropriate registered office address (not a PO box) and a registered email address
- A statement that the company is being formed for a lawful purpose
- Identity verification for every director and person with significant control; each person receives a Companies House personal code to use on filings

HMRC then writes to the registered office with the company's own UTR, which you need to register for Corporation Tax.

5 VAT and the £90,000 threshold

VAT is a tax on spending that businesses collect for HMRC. Once registered, you add VAT to your sales (**output VAT**), reclaim the VAT on your business purchases (**input VAT**), and pay HMRC the difference, usually every quarter. Returns and payment are due one month and seven days after the end of each VAT period.

When you must register

You must register once your **VAT-taxable turnover** passes **£90,000**. Taxable turnover means your sales at the standard, reduced and zero rates; exempt sales, such as most insurance and education, do not count. There are two tests:

- **Looking back.** At the end of every month, add up your taxable turnover for the previous 12 months. If it is over £90,000, tell HMRC within 30 days of the end of that month. You are registered from the first day of the month after that.
- **Looking forward.** If you expect your taxable turnover in the next 30 days alone to exceed £90,000, register by the end of that 30-day period.

> **THE MOST COMMON MISTAKE**
>
> Assuming the count resets in January, in April or at your company year end. It does not. It is a **rolling 12 months**, checked every month.

Should you register voluntarily?

You can register before you reach the threshold. It usually helps when most of your customers are VAT-registered businesses, because they can reclaim the VAT you charge them. You can then reclaim VAT on your own set-up costs, including VAT on goods you still hold that were bought up to four years before registration, and on services bought up to six months before.

It usually hurts when you sell to the public or to small unregistered businesses. Adding 20% either makes you dearer than unregistered rivals or comes out of your margin.

Schemes that can help

- **Flat Rate Scheme:** you pay a fixed percentage of your VAT-inclusive turnover. Open to businesses with taxable turnover up to £150,000 (excluding VAT).
- **Cash Accounting Scheme:** you pay VAT when your customers pay you, not when you invoice. Useful if customers pay slowly.
- **Annual Accounting Scheme:** one return a year, with interim payments.

Every VAT-registered business must follow **Making Tax Digital for VAT**: keeping digital records and filing returns through compatible software. You can cancel your registration if your taxable turnover falls below £88,000.

6 Pricing, margins and cash flow

A business can be profitable on paper and still run out of money. Profit is what the accounts say; cash is what is in the bank. Slow-paying customers, stock bought up front and quarterly tax bills can drain your reserves before sales catch up.

Know your true direct costs

Before you set a price, work out your **direct costs**: the costs you incur only when you make a sale, such as materials, wholesale stock, delivery in, packaging and card fees. For goods these are often called **cost of sales**. What is left is your **gross profit**:

$$Gross\ profit = Sales - Direct\ costs \qquad Gross\ margin = \frac{Gross\ profit}{Sales} \times 100\%$$

Your gross profit has to cover all your fixed **overheads** (rent, software, insurance, marketing, accountancy) and still leave a proper profit. A simple example, excluding VAT:

	£	% of sales
Sale price	100	100%
Less direct costs (materials, delivery, card fees)	(40)	40%
Gross profit	**60**	**60%**
Less overheads (rent, software, insurance, marketing)	(35)	35%
Net profit before tax	**25**	**25%**

If you are VAT-registered and sell to consumers, remember the VAT comes out of the price they pay. A £100 shelf price is only £83.33 to you before any costs.

Forecast your cash

Build a rolling 12-month **cash flow forecast** showing the money expected in and out of your bank account each month, including tax payments. Then watch for timing gaps. If your suppliers want paying in 14 days but your business customers take 60 days, you have a 46-day gap to fund from savings, a facility or better credit terms.

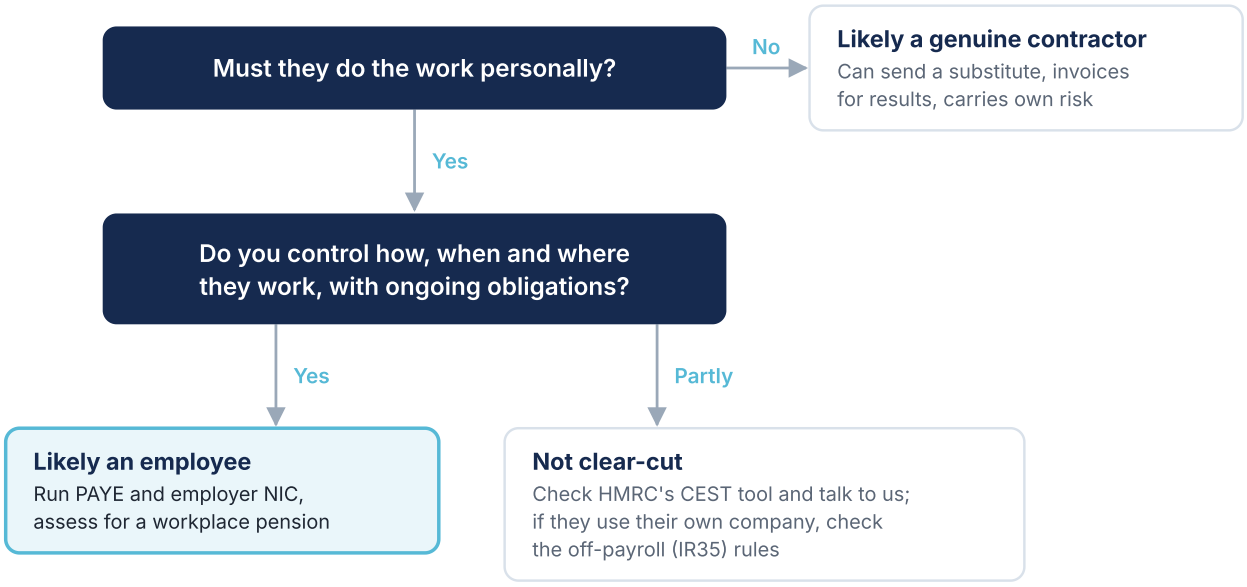
> **TAXLAB TIP**
>
> Keep a separate savings account for tax. Move a set amount into it every time you are paid, so the January or Corporation Tax bill is never a shock. We can tell you how much to set aside.

7 Taking on staff: PAYE, pensions and employment status

Your first hire turns you into an employer, with duties to HMRC, The Pensions Regulator and your staff under employment law.

Employee or contractor?

Calling someone a contractor, or asking them to send invoices, does not make them self-employed. HMRC and the courts look at how the relationship works in practice.



A first check on employment status. HMRC looks at the whole relationship, so treat this as a starting point, not a verdict.

The main questions are **personal service** (can they send someone else in their place?), **control** (do you decide how, when and where the work is done?), **mutual obligation** (must you offer work and must they accept it?) and **financial risk** (do they provide their own equipment and insurance, and stand to lose money?). HMRC's free **Check Employment Status for Tax (CEST)** tool gives a view on GOV.UK. If HMRC later decides a "contractor" was really an employee, the business is liable for the unpaid PAYE tax and National Insurance, plus interest and penalties.

PAYE and Real Time Information

You need a PAYE scheme if anyone you pay, including yourself as a director, earns £129 a week (£6,708 a year) or more, has another job or receives a pension or benefits. Register before your first payday. Under **Real Time Information (RTI)**, you send HMRC a **Full Payment Submission** on or before every payday, and pay what you owe by the 22nd of the following month if you pay electronically. On top of wages you pay:

- **Employer National Insurance** of 15% on each employee's earnings above £5,000 a year. Eligible employers can claim the **Employment Allowance**, which reduces the bill by up to £10,500 a year.
- **Statutory pay** such as sick, maternity and paternity pay. From April 2026, Statutory Sick Pay is payable from the first day of sickness.

You must pay at least the legal minimum. From 1 April 2026 the **National Living Wage** is £12.71 an hour for workers aged 21 and over, £10.85 for those aged 18 to 20, and £8.00 for under-18s and apprentices.

Workplace pensions

Under **auto-enrolment**, you must put eligible staff into a qualifying pension scheme. Eligible staff are aged 22 to State Pension age and earn over £10,000 a year. The minimum total contribution is 8% of qualifying earnings, of which the employer pays at least 3%. You must also send The Pensions Regulator a declaration of compliance within five months of your duties starting. A company whose only staff are its directors usually has no auto-enrolment duties.

Before anyone starts, check their right to work in the UK and give them a written statement of terms on or before day one.

8 Bookkeeping, expenses, banking and records

Good bookkeeping keeps you compliant and tells you how the business is really doing. The basic rule for business expenses is that a cost must be incurred **wholly and exclusively** for the purposes of the trade.

Common allowable expenses

Expense	What you can claim
Business mileage	HMRC's approved rates for your own car are 45p a mile for the first 10,000 business miles in a tax year and 25p a mile after that. Sole traders can claim these instead of actual running costs; a company can pay them to a director or employee tax-free. Ordinary commuting between home and a permanent workplace never counts.
Working from home	Sole traders can claim a fair share of actual household costs based on the space and time used, or HMRC's flat rate based on hours worked at home each month (£10, £18 or £26 a month). A company can instead pay an employee or director up to £6 a week tax-free towards the extra costs.
Equipment	Items you keep and use in the business, such as laptops, tools and machinery, qualify for **capital allowances**. The **Annual Investment Allowance** gives 100% relief in the first year on up to £1 million of qualifying plant and machinery. Cars do not qualify and have their own rules.
Mixed-use costs	Where a cost has a separate, identifiable business part, such as a mobile phone or broadband line used for work, the business share can usually be claimed. Costs that also serve a personal purpose, such as everyday clothing, are not allowable. Client entertaining is never deductible.

Banking

A limited company's money belongs to the company, so it needs its own business bank account. Sole traders are not legally required to have one, but running business income through a personal account makes bookkeeping harder and invites questions if HMRC ever looks at your records. We recommend a separate account from day one.

Cloud accounting

Link your bank to cloud software such as **Xero** or **FreeAgent**, and every transaction flows in automatically. Snap receipts on your phone as you go and reconcile weekly. You will have up-to-date figures for decisions, and tax returns that are ready to file. Taxlab is a Xero Silver Partner and a FreeAgent Certified Practitioner, and we can set this up for you.

How long to keep records

- **Sole traders and partners:** at least 5 years after the 31 January filing deadline for the tax year concerned.

- **Limited companies:** at least 6 years from the end of the accounting period.

Keep records longer if a return is late or under enquiry, or if they relate to assets you still own.

9 Insurance: what the law requires

Only one business insurance is compulsory for most employers. The rest depend on what you do and who you work with.

COMPULSORY: EMPLOYERS' LIABILITY INSURANCE

Under the **Employers' Liability (Compulsory Insurance) Act 1969**, if you employ staff you must hold cover of at least **£5 million** from an authorised insurer. It pays compensation and legal costs if an employee is injured or falls ill because of their work. Employers can be fined up to £2,500 for every day they are not properly insured, and up to £1,000 for failing to display or produce the certificate. There are limited exemptions, including a company whose only employee also owns 50% or more of its shares.

Policy	What it protects against	Typically needed by
Public liability	Injury to customers or the public, or damage to their property, caused by your work	Anyone who visits clients, works on site or has customers on the premises. Many contracts require £1m to £5m of cover
Professional indemnity	Claims that your advice, design or service caused a client financial loss	Consultants, designers, IT professionals and other advisers
Directors' and officers'	Claims against directors personally by regulators, liquidators or shareholders	Company directors, especially with outside investors
Contents, stock and cyber	Loss, theft, damage or data breaches	Most businesses, depending on what they hold

We are not insurance brokers, so please take advice from an authorised broker on the cover and limits you need.

10 Your 90-day launch checklist

Work through these in order and tick them off as you go.

Days 1–30 Test and structure

- [ ] Test your numbers: direct costs, prices, gross margin and the sales you need to break even
- [ ] Agree your structure (sole trader, partnership or limited company) with your accountant
- [ ] Check your business name against the Companies House register and the UK Intellectual Property Office trade mark database
- [ ] If incorporating: verify each director's and owner's identity, then incorporate
- [ ] If going into business with others: put a partnership or shareholders' agreement in place

Days 31–60 Register and set up

- [ ] Open a business bank account and set up card payments
- [ ] Register with HMRC: Self Assessment for sole traders and partners, or Corporation Tax within 3 months of the company starting to trade
- [ ] Check your rolling 12-month turnover against the £90,000 VAT threshold, or consider registering voluntarily
- [ ] Arrange insurance: Employers' Liability if you employ anyone, plus public liability or professional indemnity as needed
- [ ] Set up cloud accounting software, connect your bank feed and start capturing receipts

Days 61–90 Trade and review

- [ ] Set up PAYE before your first payday if you will pay anyone £129 a week or more
- [ ] Issue proper invoices showing your business name, legal entity, address and, if registered, your VAT number
- [ ] Reconcile your bank weekly, chase unpaid invoices and move money into a tax savings account
- [ ] Hold your first quarterly review with your accountant: actuals against budget, cash flow and tax planning

Key figures at a glance, 2026/27

Item	Figure
Personal Allowance	£12,570 (withdrawn between £100,000 and £125,140)
Trading allowance	£1,000
Class 4 National Insurance	6% on profits £12,570 to £50,270; 2% above
Corporation Tax	19% up to £50,000; 25% over £250,000; marginal relief between
Dividend allowance and rates	£500; then 10.75%, 35.75% or 39.35%
Employer National Insurance	15% above £5,000 a year
Employment Allowance	Up to £10,500 (not for single-director companies)
Lower Earnings Limit	£129 a week (£6,708 a year)
National Living Wage (21 and over)	£12.71 an hour from 1 April 2026
VAT registration / deregistration	£90,000 / £88,000
Making Tax Digital for Income Tax	Over £50,000 from April 2026; over £30,000 from April 2027; over £20,000 from April 2028
Companies House fees (online)	Incorporation £100; confirmation statement £50

How Taxlab can help

A good accountant does far more than file last year's numbers. We help you choose the right structure, set up your registrations and bookkeeping properly, protect your margins and plan your tax before the bills arrive, not after.

If you are weighing up sole trader against limited company, or you want your digital books and tax registrations set up correctly from day one, we would be glad to talk.

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Important information

This guide gives general information about starting a business in the UK. It is based on legislation and on HMRC, GOV.UK and Companies House guidance in force for the 2026/27 tax year, as at October 2026. Tax rates, allowances and rules change, and the right course of action depends on your personal circumstances.

The guide is not tax, legal, insurance, employment or financial advice, and it should not be relied on as such. You should take professional advice on your own situation before acting, or deciding not to act, on anything in it. To the fullest extent permitted by law, Taxlab Limited and its directors accept no responsibility for any loss arising from reliance on this guide without such advice. Taxlab Limited is not authorised by the Financial Conduct Authority and does not give investment advice or arrange insurance.

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