

Ask the expert

EBM seeks out the answers to your questions

Can you explain the tax considerations that need to be assessed for both sole traders and those running small businesses such as tack shops and riding schools?

Julie Butler from Butler & Co

There are three fundamental ways for a small business to trade, either as a sole trader, partnership or limited company. The partnership can achieve further protection through a limited liability partnership (LLP), although that does mean that Accounts have to be filed at Companies House. Whatever method of trading is chosen, it is essential that a business plan is produced.

Tailor Made Advice – the choice of trading vehicle must be tailored for the circumstances of the individual equine business. For example, if it is considered

that the protection against liabilities such as legal cases is a key issue, then a limited company would offer greater protection. If, however, the business is likely to develop goodwill, then certain tax advantages of trading through a sole trader or partnership are available, with the option of incorporating and achieving the advantage of goodwill still available at a later date. Partnerships have always been a complex area of understanding, as essentially partners are jointly and severally liable. This is one of the reasons that limited companies can be so attractive, although the Companies House filing requirements are a distinct disadvantage in the eyes of some business people who often prefer

to keep as much detail of the business as private as possible.

Offsetting Losses – where there are likely to be losses at the beginning of the equine trade there are advantages of adopting an unincorporated business model (i.e. a sole trade or a partnership) so that these losses can be offset against other income to save tax. For example, it could be that a very high earner decides to go into an equine business and takes a couple of years to establish the business. The opening years' losses can be carried back against previous higher earnings and a tax refund obtained. On the other hand, a distinct tax advantage of a limited company is being able to take the basic remuneration through dividends and therefore minimising PAYE and National Insurance.

Action Points – to summarise,

in order to assess the tax considerations of running an equestrian business, it is essential to tailor the planning around specific considerations of your specific business. It is important to take professional advice in order to make the right decision. One particular tax advantage at the moment is the recent Autumn Budget announcement that Annual Investment Allowances (AIAs) have increased to £250,000 from 1st January 2013. That means if any equestrian business needs to buy equipment, and obtain maximum tax reliefs, then there are some sizeable advantages of looking at the timing, especially before 5th April 2013. Many equestrian businesses are holding high levels of stock and a review of writing down stock that is worth below "net realisable value" should be considered.



If you've got a question that you want answering, let us know at: editorial@ebmonthly.co.uk