

Questions to ask your Accountant (whether new or existing) to Support your Business

The following questions have been designed to assist you when meeting your accountant and/or tax advisor. Whilst the tax and accountancy rules differ between countries these open-ended questions will still help empower you during your meetings. Whether you are interviewing a series of accountants for your business or simply making your existing accountant accountable if these questions are not answered fully, professionally and with confidence then you should start thinking about engaging somebody else. After all it's your business, your investment so doesn't it make sense to have a great professional team to support you?

Business Expenses

1. **What expenses are allowable?** What expenses should your business be paying for and which expenses are tax allowable. The answer to this question will of course fully depend on the type of business you are running. Generally, expenses that are wholly and exclusively for the purpose of your business are tax deductible. Typical examples of business expenses are as follows:
 - a. Travel
 - b. Staff (payroll expenses)
 - c. Contractors
 - d. Telephone and internet
 - e. Seminars and consultants
 - f. Stationary
 - g. Motor expenses

2. **Charitable Donations: What are the requirements/restrictions of your business making charitable donations?** Social responsibility is becoming a very important aspect in business and a lot of entrepreneurs are more inspired to pay to excess profits to charity rather than to the government in the form of taxes. Therefore, make sure that any charitable payments are tax deductible. Also try to assess your taxable profits **BEFORE** your year-end so that you can decide what excess profits are available to pay towards philanthropy.

3. **Family:** Do you have family or friends that are currently not working? Well, why don't you consider employing them in your business! **Ask your accountant what would be deemed a reasonable wage to pay your family or friends for part-time or full-time work.** This could be an excellent way of utilising their tax-free personal allowances and ensure that the payments to them are tax deductible. **Please ensure that any payment you make to family or friends is both commercial and processed correctly.**

Personal Extraction/Payments from your Business

4. **What is the most tax efficient method of you extracting funds from your business?**

The answer to this question will strongly depend on the entity that you trade from (please see the next sub-heading). However, it is very important for you to work out how much money you personally need to take out on a monthly/quarterly/annual basis?

Generally, the only method of extracting funds from your business are as follows:

- a. **Salary/Wage** – this will be a monthly wage that you take out. Whilst this will be tax deductible expense for your business you will pay personal taxes on this income which will generally be assessed and paid monthly.
- b. **Dividends** – This is only applicable if you are trading from a company with shares (certain companies, especially charities, do not have shareholders). Ask your accountant the legal AND tax implications of paying out a dividend. Be aware that if you do decide to pay out a dividend that the amount has to split amongst ALL your shareholders in accordance to their shareholding. If you are a sole shareholder, then this will not be a concern. **Generally, dividends are not tax deductible for your business and are taxed solely as personal income. You will need to declare this at least annually on your personal tax return and pay the applicable taxes once a year. Ask your accountant what personal taxes are payable on dividends and how they differ from payroll taxes.**
- c. **Loans** – In some cases you may be allowed to take a loan from your business. Whilst loans are not income and therefore not taxable there will be restrictions on how much you take out and when this loan needs to be repaid. **Ask your accountant if you are legally allowed to take a loan out from your business, how much you can take out, when it needs to be repaid, the tax consequences of taking out the loan and if the loan should be interest bearing or interest free.**

TRADING ENTITY

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- The answer to this question will of course be heavily dependent on your business, where it is now, the current taxable profits and where you think the business will be in 12 months-time. Another consideration will be how many people you will be working with in your team, who will be actively involved in your business and how many people if any wish to invest in your business.

Examples of trading entities are as follows:

- a. Sole trader/self employed
- b. Partnership including Limited Liability Partnership (LLP)
- c. Company limited by shares
- d. Company limited by guarantee
- e. Charity

6. **Where should your business be based?** Different jurisdictions have different tax implications. For example, in the USA there are both Federal and State taxes. Whilst Federal taxes are paid throughout the USA, State taxes vary dramatically. Generally, your business should be based where you are based and where the business trades from. However, if you have multiple partners/directors and are an online business you really can have a huge array of options. You should also consider the costs of setting up in different jurisdictions and compare it to the potential tax savings. It is essential that you take a commercial approach – even when considering tax advice.

Make sure you tell your accountant about your personal circumstances before you ask about the tax advantages of setting up in a different jurisdiction! The following questions need to be raised/considered by yourself: What does your business do, where are your main business premises, how many partners/directors are in your business and can you and/or your business move to a different location?

TAX EFFICIENT INVESTING

7. **How can your business make tax efficient investments?** Tax efficient investments in this case need to be divided into two separate sections. In each case whilst your accountant should be able to provide you with the relevant tax advice you will most likely need to seek out a financial advisor for the investment advice.
- a. Investments made by the business for the business: Your business needs to have a savings plan to ensure that you retain money in the business. Money attracts money so it is always wise to retain a healthy cash balance within the company. Try to make sure that you cannot access these funds regularly AND that any capital growth in these investments is tax efficient.
 - b. Investments made for you: Rather than extract money from your business, pay tax on this amount and then invest in the net balance it would be wise if your company can make these investments on your behalf. By making gross payments rather than net investments into your personal investments will provide you with a benefit. **Ask your accountant what tax deductible investments your company can make on your behalf!** The rules will depend on the country and jurisdiction your business trades from, but examples of tax-deductible investments are **company pensions and payments towards life cover.**

NON- RESIDENT CLIENTS or THOSE LOOKING TO MOVE PERMANENTLY ABROAD

8. At what date can I classify myself as a UK or Non-UK resident? What actions need to take place before I can change my residency status?
9. What taxes are payable and how many tax returns will I need to file when my residency status changes?
10. What is the double taxation treatment with England?

- 11.** If I live permanently abroad, can my business still be based in England? If so, where will I be paying taxes on the business profits?
- 12.** If I decide to live in another country to assess whether I want to live there permanently do I still need to register and pay taxes in that country? Surely in this position I should continue to file and pay taxes in England?
- 13.** If I move permanently abroad, do I need to create a new will? Is my existing UK will recognised in this country?
- 14.** What do I need to open a new bank account in my new country of residence?

For more information, please call us on 020 7263 3295 or email us info@charlesgroup.co.uk