The importance of keeping good business records

To ensure that you pay the correct amount of tax and file correct tax returns with HMRC, it is vital that you keep complete and accurate records. This applies regardless of whether you are running a business as a sole trader or in partnership or operating a limited company.

Business records for the self-employed

The self-employed need to complete records of their business income and expenses. Where the business is operated in partnership, the responsibility of keeping records falls on the nominated partner.

It is important to keep records of:

- all sales and income
- all business expenses
- VAT records if the business is VAT registered
- PAYE if the business has employees

Records are essential to enable the business to work out its profit or less. They may also be needed to support the figures included on the tax return should HMRC ask questions.

Keeping records of expenses ensures that nothing is overlooked and tax relief can be claimed as appropriate. It is, however, important to retain proof of expenses, for example:

- receipts
- bank statements
- sales invoices
- purchase invoices
- till rolls
- paying-in slips

Limited companies

Where the business is operated as a limited company, records of income and expenses must be kept as for a sole trader. It is important to record income, expenses, debts owed by and to the company, details of goods brought and sold, details of stock and records of stock takes, etc.

Records must also be kept about the company itself, including details:

- directors and shareholders
- minutes of votes and resolutions
- details of any charges on the company’s assets, debentures, indemnities

The company must also keep a register of persons with significant control. Broadly, anyone who has more than 25% of the voting rights, can appoint or remove a majority of directors or can influence or control the company.

How to keep records

While records can be kept manually, for many businesses it will soon become mandatory to keep digital records. Most businesses who are VAT registered and whose turnover is above the VAT registration threshold of £85,000 will need comply with the requirements of Making Tax Digital for VAT from the first VAT accounting period beginning on or after 1 April 2019. This will necessitate keeping certain VAT records digitally. Once MTD is introduced for income tax and corporation tax, it will be mandatory to keep digital business records for these purposes too.

Where there is no mandatory digital record keeping requirement to meet, records can be kept on paper, using software packages or on spreadsheets.

How long to keep records

Where a self-assessment tax return is filed before the deadline of 31 January after the end of the tax year to which it relates, records should be kept for at least 22 months of the end of the tax year (12 months from the filing deadline). Where the return is sent late, records should be retained for at least 15 months from the date the return was submitted.

Beware penalties

HMRC can charge penalties for the failure to keep accurate records. A company director can be fined £3,000 or disqualified for the failure to keep proper accounting records.

Partner note: See www.gov.uk/keeping-your-pay-tax-records.