



# Tax planning and compliance for tech entrepreneurs

Tax planning isn't just about keeping on the right side of HMRC – it's about making smart decisions that help your business thrive.

It's about understanding how taxes work and how you can develop strategies that let you keep more of your hard-earned money and invest it back into growth.

This guide explores the many nuances of tax planning for tech entrepreneurs.

We'll cover:

- the main taxes affecting tech companies.
- how to handle expenses effectively.
- ways to manage your personal income tax-efficiently.
- VAT considerations for digital products.
- making the most of research and development (R&D) tax relief.

By the end, you'll possess essential knowledge to make strategic tax decisions for your tech business.

Remember, while this guide gives you a solid foundation, it's always wise to consult with an accountant or tax adviser for personalised advice.

So, without further ado, let's get started.

## Understanding taxes in the tech sector

Before digging deeper, we'll first break down the main taxes you'll encounter and how they apply to tech companies.

### Corporation tax

One of the primary tax concerns for any tech company is corporation tax. This is a tax on your company's profits, which includes all revenues minus allowable business expenses.

Since April 2023, corporation tax rates in the UK are split based on profit levels:

- **19%** for profits under £50,000.
- **25%** for profits above £250,000.

For companies with profits between these amounts, marginal relief applies, which tapers the rate.

Payments are due nine months and one day after your financial year ends.

Calculating your taxable profits accurately is essential, and keeping detailed records of income, costs and R&D spending will help ensure you're paying the correct amount.

## Value-added tax (VAT)

VAT will likely impact your business as it grows. Here's what you need to know.

- **VAT registration:** As of April 2024, you must register for VAT once your taxable turnover exceeds £90,000. Once registered, you'll need to charge VAT (typically at 20%, but it does vary) on all eligible sales. However, you'll also be able to reclaim VAT on your business expenses, such as hardware, software subscriptions and professional services.
- **VAT compliance:** Once registered, your company must submit VAT returns every quarter, detailing the VAT you've charged on sales and the VAT you can reclaim on business expenses. Keeping accurate and up-to-date records is crucial for avoiding penalties and ensuring your VAT claims are maximised.
- **Making Tax Digital:** VAT-registered businesses must comply with HMRC's Making Tax Digital (MTD) initiative. This requires maintaining digital VAT records and using approved software to submit returns.

- **Voluntary registration:** If your turnover is below the £90,000 threshold, you may choose to register voluntarily, particularly if most of your customers are VAT-registered businesses. This can allow you to reclaim VAT on your expenses, even if you're not required to charge it.

Managing your VAT registration and compliance is vitally important for both compliance and tax efficiency. Professional advice can help you charge and reclaim VAT accurately.

## Maximising allowable expenses

Managing your tax bill starts with understanding which expenses you can legitimately claim, lowering your overall corporation tax liability.

### Common tech costs you can deduct

Many day-to-day costs of running a tech business are tax-deductible. Here's a rundown of some common expenses.

- **Software licences and subscriptions:** The cost of software used in your business is generally deductible. This includes development tools, productivity suites, specialised applications and SaaS subscriptions.
- **Cloud services:** Fees for cloud hosting, storage and computing services are allowable expenses. This covers services like AWS, Google Cloud and Microsoft Azure.
- **Hardware:** The cost of computers, servers and other equipment used in your business can be deducted. For larger purchases, you might need to use capital allowances rather than deducting the full cost in one year.
- **Office costs:** If you rent office space, this is deductible. If you work from home, you can claim a portion of your home running costs, including rent or mortgage interest, utilities, internet and phone.
- **Staff costs:** Salaries, national insurance contributions and employee pension contributions are all allowable expenses. This also includes recruitment fees, training costs and employee benefits

- **Professional fees:** Costs for accountants, lawyers and other professional services are typically deductible. This might include accountancy fees, legal advice and consultancy services.
- **Travel and accommodation:** Necessary business travel costs can be claimed, but be careful with expenses that might be seen as personal. Deductible costs might include train or plane tickets, hotel stays and meals during business trips.
- **Marketing and advertising:** Costs associated with promoting your business are usually deductible. This could include online advertising, website development and maintenance, trade show expenses and PR services.

### Handling complex tech business expenses

Not all expenses are straightforward. Some areas, such as R&D, capital allowances and intellectual property, require careful attention to claim correctly.

Misunderstanding these can lead to missed opportunities for tax savings or, worse, errors in your filings.

The following section explores some of the more complex and lesser-known aspects of corporation tax deductions and how to manage them.

### Research and development expenses

R&D is a core business activity for many tech companies.

Costs related to innovation, prototyping and experimental development can be claimed. These might include software development, testing services or the purchase of materials for prototype builds.

Additionally, some of these costs might also qualify for R&D tax relief, providing further savings. Even projects that don't lead to commercial success can be deducted.

We'll explore R&D tax credits in more detail later in the guide.

## Capital allowances for tech investments

Developing a tech company often involves upfront capital investments, such as purchasing new software, servers or specialised equipment. These can often be claimed as **capital allowances**, which let you deduct the cost of certain business assets from your taxable profits.

Through the **annual investment allowance (AIA)**, businesses can claim up to £1m of qualifying expenditure each year. This includes expenses for IT hardware, machinery and even infrastructure used in research.

For purchases that exceed the AIA threshold or don't qualify, you can still claim a percentage of the cost over several years using the **writing down allowance**. This ensures that even long-term investments are tax-efficient.

## Intellectual property (IP) expenses

Tech companies often generate or acquire valuable intellectual property. The tax treatment of IP-related expenses varies depending on whether the costs are for creating, acquiring or maintaining the IP.

- **Capital expenses** include the costs of creating or purchasing intellectual property, such as patents or trademarks. These are treated as long-term investments and can be deducted over time, incrementally reducing your taxable profits.
- **Revenue expenses** include ongoing costs, such as renewal fees or licensing, and are generally deductible in the year they are incurred.

Getting professional advice is advisable to ensure you're applying the correct tax treatment and maximising deductions.



## Mixed-use assets

It's common to use certain assets, such as laptops or mobile devices, for both business and personal purposes.

When this happens, you can claim only the portion of the cost that relates to business use. For example, if a laptop is used 80% for business and 20% personally, only 80% of the expense can be deducted.

To support your claims, maintain detailed records showing how the asset is used. This will make it easier to justify the proportion of business use in case of an HMRC inquiry.

## Smart income strategies for tech founders

Don't overlook how you pay yourself as the founder.

Many entrepreneurs assume it's a simple process, but how you compensate yourself dramatically impacts your personal tax situation and will also affect your business cashflows.

You don't just have to take a salary like a regular employee. You can decide how and when you draw money from the company.

This comes with the responsibility of ensuring that you're doing it in a way that minimises your tax bills and keeps your business financially stable.

## Salary – the foundation

A salary provides a regular, stable income. Here are key factors to consider.

- **Income tax:** Your salary is subject to standard income tax rates (20%, 40% or 45%), depending on your total income.
- **National insurance (NI):** Salaries attract both employee and employer NI contributions, increasing the overall tax burden.
- **Corporation tax relief:** One benefit is that your salary is an allowable business expense, reducing the company's corporation tax liability.

Many founders set their salary around the national insurance primary threshold to optimise tax savings while still maintaining contributions to their NI record, which is important for obtaining benefits like the state pension.

### Dividends – tax-efficient profit extraction

Dividends offer a more tax-efficient way to extract profits, as they're not subject to national insurance contributions and are taxed at lower rates than salaries.

- **Tax rates:** Dividends are taxed at 8.75% for basic-rate taxpayers, 33.75% for higher-rate taxpayers and 39.35% for additional-rate taxpayers.
- **Profit dependency:** Dividends can only be paid from profits, meaning if your company isn't profitable, dividends are not an option.
- **No corporation tax reduction:** Unlike salaries, dividends don't reduce the company's corporation tax liability.

A combination of salary and dividends is often used to maximise tax efficiency. Many tech founders take a modest salary to cover basic needs and supplement it with dividends to minimise their overall tax burden.

### Pension contributions for long-term tax efficiency

Pension contributions made by your company can be highly tax-efficient, as they provide immediate tax benefits while helping secure your future.

- **No income tax or NI:** Pension contributions are not subject to income tax or national insurance.
- **Corporation tax relief:** Contributions reduce the company's corporation tax liability.
- **Growth within the fund:** Pension funds grow tax free, but the funds are locked until retirement age.

Be mindful of the annual allowance, currently set at £60,000, as exceeding this limit could result in a tax charge. Pension contributions are an ideal long-term strategy for tax-efficient wealth building.



## Benefits in kind

Certain perks, or benefits in kind, can be provided by the company in a tax-efficient manner.

- These may include company-provided mobile phones, work-related training or electric vehicles.
- While the tax savings on individual items may be small, they can add up over time, providing value without significantly increasing your tax burden.

## Balancing your income

The key to an effective income strategy for tech founders lies in balancing various methods of income extraction. Here's how the different methods stack up.

- **Salary:** Provides stable income and reduces corporation tax but is subject to income tax and national insurance.
- **Dividends:** A tax-efficient method, especially for higher-rate taxpayers, though it depends on profitability and doesn't reduce corporation tax.

- **Pension contributions:** Highly tax efficient for the long term, offering immediate corporation tax relief without incurring income tax or national insurance.
- **Benefits in kind:** Tax-free or lower-tax perks that add additional value without increasing personal tax burdens.

Choosing the right mix of these methods will depend on your personal financial needs, business profitability and long-term goals.

Expert help is invaluable here. [EV Accounts](#) can help you determine the best mix of methods to pay yourself as a founder and/or director.

## R&D tax relief – everything you need to know

**Research and development (R&D) tax relief**, also known as R&D tax credits, is a powerful tool for tech companies. It offers the potential to significantly lower your tax liability or even secure a cash payment from HMRC.

Many underestimate the scope of R&D tax relief or wrongly assume their work doesn't qualify.

From April 2024, the UK merged the two forms of R&D tax schemes – the small or medium-sized enterprise (SME) and large company R&D schemes – into a simpler R&D expenditure credit (RDEC) regime.

Under this unified scheme, companies can claim an RDEC at a rate of 20%, resulting in a net benefit of around 15–16.2%, depending on profitability.

However, R&D-intensive SMEs – those spending at least 30% of their total expenditure on qualifying R&D – can access enhanced support through a parallel scheme.

The new rules also made a few other modifications, limiting relief for subcontracted R&D work done overseas, while allowing cloud computing and data costs to qualify. This is excellent news for tech companies.

### **What qualifies as R&D in tech?**

For tax purposes, R&D refers to work aimed at making an advance in science or technology by resolving scientific or technological uncertainty.

In the tech sector, this encompasses a broad range of activities – many of which are commonplace in software and hardware development.

### **Software R&D**

- Developing new programming languages, platforms or operating systems.
- Creating innovative algorithms for data processing, encryption or machine learning.
- Advancing artificial intelligence capabilities or blockchain technologies.

### **Hardware R&D**

- Designing novel computer architectures or hardware systems.
- Innovating in areas like quantum computing, neural networks or cutting-edge networking technologies.
- Developing robotics, automation systems or advanced user interfaces.

The key here is technological uncertainty – the project must solve a problem that a competent professional would not easily solve. Your project likely qualifies if it pushes boundaries, develops something new or overcomes significant technical challenges.

### How to make a strong R&D tax credit claim

To maximise your R&D claim, you need a structured approach that identifies qualifying activities and demonstrates the depth of the work involved.

Here's how to approach the claim process.

- **Identify qualifying projects:** Review all development activities to find those involving genuine technological uncertainty. You may find that much of your innovation activity – creating new algorithms, enhancing existing systems or testing novel hardware – qualifies.
- **Document the uncertainty:** Clearly explain the problems you encountered and how you attempted to solve them. HMRC is looking for evidence that the work goes beyond routine engineering or development and involves genuine innovation.
- **Track costs:** Carefully track all costs associated with your R&D activities, including staff time, materials, subcontractor fees and software licences. Properly categorising these expenses from the start makes it much easier to prepare your claim.
- **Choose the right scheme:** From April 2024, the R&D expenditure credit (RDEC) scheme will apply to most companies, while smaller R&D-intensive businesses may qualify for enhanced support under a special scheme. Loss-making companies, particularly startups, could receive cash payments from HMRC, making this support especially valuable for early-stage tech firms.
- **Submit on time:** You have two years from the end of the relevant accounting period to file your R&D tax claim. Ensure you stay on top of deadlines to avoid missing out.
- **Provide supporting information:** As of 1 August 2023, you're required to submit an additional information form alongside your R&D claim. This form should outline your projects, detailing how and why they qualify under the R&D relief rules.

The more detailed and well-organised your claim, the more likely it will be approved without queries or delays from HMRC. Comprehensive documentation is key.

Working with R&D tax credit experts – [like us at EV Accountants](#) – is a tremendous asset in making a successful claim. We'll help you work out your qualifying expenditure and assist in submitting and managing your claims.

### **Record-keeping is the foundation of a successful claim**

Good record-keeping is the backbone of any successful R&D tax relief claim. Without proper records, it's difficult to prove that your work qualifies or accurately track the costs involved. Here's what you should be recording.

- **Project planning documents:** These outline the objectives and challenges of your R&D work, showing HMRC that you were aiming for technological advancements.
- **Test results and reports:** Records of experiments, tests and prototypes provide evidence of the trial-and-error involved in your innovation process.
- **Staff time records:** Document the time each staff member spent working on R&D activities, including developers, engineers and any subcontractors.
- **Subcontractor agreements and invoices:** If you outsourced some of your R&D work, these records show the costs involved and their connection to the qualifying projects.
- **Consumable records:** Track materials and resources used in R&D, such as hardware components, testing supplies or specialised software licences.

## Wrapping up – building a tax-smart technology business

Effective tax management is fundamental to ensuring your tech business remains financially strong, adaptable and ready for growth. It's certainly not just a box-ticking exercise – it can seriously impact your business operations, turbocharging growth and ensuring financial stability.

Here's a recap of the key points.

- **Income strategy matters:** Balancing salary, dividends and other forms of income can reduce your personal tax burden while supporting company growth.
- **Leverage R&D relief:** If your business is innovating and developing in software, hardware or other tech areas, you may be eligible for R&D tax credits. This can lead to substantial tax reductions or even cash payments from HMRC.

- **Keep impeccable records:** Good documentation is the foundation of tax compliance and claiming reliefs such as R&D credits.
- **Stay proactive:** The tax landscape, particularly for R&D relief, is constantly evolving. Staying on top of these changes will help you seize new opportunities.

At **EV Accountants**, we specialise in guiding tech businesses through the many nuances of tax and accounting. From crafting efficient tax and income strategies to helping you claim R&D tax credits, our team is dedicated to supporting your growth.

We offer tailored solutions for the unique challenges of the tech sector – whether you're a startup, scaling up or a well-established company.

**Contact EV Accountants today** to get started.

**Ready to find  
out more?**

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