



Helping you move forward with confidence

Starting a new business? Don't forget the structure and tax

Many people wish to start their own business, and in the current tough economic climate, there is no better time to make a start. In light of the COVID-19 pandemic resulting in a sluggish economy, many employees were laid off as companies grappled with ensuring their survival. Many of you may be thinking about starting a business and if that is true, consider a few aspects including the legal form of the structure of the business as well as taxation.

Structure

There are three common types of business structures, namely **sole proprietorship, a partnership and a limited liability company.**

The appropriate structure one decides upon will depend on a number of factors, including consideration of taxation implications, the legal entity, ownership and liability. A sole trader is the simplest form of business since it can be established without legal formality. However, the business of a sole trader is not distinguished from the proprietor's personal affairs. A partnership is similar in nature to a sole trader but because more people are involved, it is advisable to draw up a written agreement and for all partners to be aware of the terms of the partnership. Again the business and personal affairs of the partners are not legally separate. In a company, the business affairs are separate from the personal affairs of the owners, but there are legal regulations to comply with.

Taxation

The most common taxes to bear in mind include Income tax, Value Added Tax (VAT) and payroll taxes. Other taxes that may apply include import duties and excise tax.

Income tax: The type of tax and rate of taxation your business will be taxed at will depend on the form of business structure that you decide to use. Whatever business structure you decide to use, you will find that your business' taxable profit will normally differ from the profit shown in your business' accounts. This is because certain expenses which are incurred in your day to day business

operations are not allowed for tax purposes. The other reason is the timing of some tax allowances which may differ from the time when the actual costs or expenses are incurred by the company.

Value added tax (VAT): when starting a business you should consider the need to register for VAT. If the value of your taxable sales or services exceeds the registration limit you will be obliged to register for VAT.

Payroll taxes: it is the employer's responsibility to deduct income tax in form of PAYE and social security contributions, and to account for these to the relevant statutory bodies. Payroll records should be carefully maintained. Other payroll taxes that you should be aware of in the eastern Africa region include the National Hospital Insurance Fund (N.H.I.F) and National Industrial Training Levy (NITA). You also need to be familiar with employment law.

Import duties: in case you set up a business that will import products, you need to be aware of the duties that apply on certain products as governed by the East African Customs Management Act.

Excise tax: this is a tax that is imposed on specified imported or locally manufactured goods and services.

Professional advice can help to avoid some of the problems which befall new businesses. It is always advisable to seek assistance from competent professionals in formulating a strategy suitable for your own requirements.

Caveat

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