ZAZEN TAX

The SaaS Company's UK Tax Handbook

VAT at home and abroad, R&D relief without the cowboys, share options that actually work, and the difference between billed and earned.

Eight chapters, one worked software company, and every figure checkable on the free tools.

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Contents

One company runs through every chapter: Arbor Metrics Ltd, a B2B analytics platform with 200 customers paying £200 a month, £40,000 of MRR, 80 per cent gross margin, growing and deliberately loss-making. Every tool on zazentax.com uses the same company, so the chapters and the calculators agree with each other.

1 One company, one year

Software money has a shape too: revenue that arrives before it is earned, losses that are chosen rather than suffered, and a company whose value sits in code the balance sheet barely mentions.

Arbor Metrics Ltd sells a B2B analytics platform at £200 a month. Two hundred customers make £40,000 of MRR and £480,000 of ARR; 40 per cent of customers pay annually upfront. Gross margin is 80 per cent after hosting and support. The company spends £180,000 a year on genuine development R&D and runs at minus 5 per cent EBITDA on purpose, because it grew ARR 37.1 per cent last year and the board wants more of that.

Each chapter takes one tax or accounting question this company meets in a normal year. The numbers are worked, not illustrative: the same figures run through the calculators and workbooks on zazentax.com, and each chapter names the tool that does its arithmetic.

> THE THEME OF THE WHOLE BOOK
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> SaaS tax problems are timing problems. Cash arrives before revenue, relief arrives after spend, and tax arrives on profits you have chosen not to make yet. Companies get into trouble by reading one of those clocks as if it were another.

2 VAT at home and abroad

A UK SaaS company charges 20 per cent VAT to UK customers and, done properly, almost nothing to anyone else. The word doing the work is properly.

UK customers, business or consumer, pay standard-rated VAT at 20 per cent. Business customers abroad are outside UK VAT under the place of supply rules: the customer accounts for tax in their own country, the invoice carries the reverse charge wording, and the evidence is a validated VAT number kept on file.

Consumers abroad are where it gets real. An EU consumer must be charged their own country's VAT from the first sale, with no threshold; one non-Union OSS registration files it all quarterly. Consumers further afield trigger country-by-country registrations, and the United States is fifty separate sales tax regimes with economic nexus thresholds that accrue quietly.

The customer	The treatment	The evidence
UK, any kind	UK VAT at 20 per cent	The invoice
Business abroad	Outside UK VAT, reverse charge	Validated VAT number
EU consumer	Their VAT rate, via OSS	Two location proofs
US consumer	State sales tax where nexus	Sales by state, tracked

Registration itself is the same rolling test as any business: £90,000 of taxable turnover in any twelve months. Most funded SaaS companies pass it in the first year and should usually register early anyway to recover VAT on costs. The Digital Services VAT Checker walks any single sale through the full decision.

3 R&D relief, without the cowboys

Arbor Metrics spends £180,000 a year resolving technical uncertainty. The merged scheme pays a 20 per cent credit on that spend, and because the credit is itself taxable, the company nets £27,000 as a profit-maker or £29,160 as a loss-maker.

Qualifying is narrower than the claims industry pretends. The work must seek an advance in science or technology through resolving uncertainty a competent professional could not readily settle. Building features with established tools is development, not R&D; making a query engine do what published art says cannot be done is the real thing.

Deeply loss-making companies get more. Spend 30 per cent of total costs on R&D and ERIS applies: an 86 per cent extra deduction and a 14.5 per cent payable credit, worth up to 26.97p per pound of qualifying spend. The R&D Tax Relief Calculator runs all three routes on your numbers; chapter and calculator agree on every figure because they are the same arithmetic.

The deadlines are unforgiving: first-time claimants must notify HMRC within six months of the period end, and every claim needs the Additional Information Form before the return. R&D Tax Relief for Software, the companion book, spends eight chapters here.

4 Options and the people you cannot yet afford

A SaaS company's compensation problem is that the people who build it are worth more than it can pay. Share options are the honest fix, and EMI is the only version where the tax works properly.

Take one engineer holding options over 10,000 shares at a £1 strike, exiting at £6. Under EMI granted at market value, there is no income tax at exercise; the £50,000 gain takes capital gains treatment, and with business asset disposal relief at 18 per cent after two years from grant, the engineer keeps £41,540.

The same options granted unapproved tax the £50,000 spread as employment income at exercise: £29,000 kept after 40 per cent tax and 2 per cent NIC, and the company pays £7,500 of employer NIC on top. The £12,540 difference per employee is why EMI paperwork is worth doing properly: the valuation agreed on VAL231, the working-time declaration signed, the grants notified through the ERS return by 6 July.

The Share Options Tax Calculator runs both routes side by side, and the EMI Register workbook keeps the record diligence will one day read.

5 Billed is not earned

Forty per cent of Arbor Metrics customers pay annually upfront. The bank balance says the company is richer than it is; the deferred income line says by exactly how much.

A £2,400 annual contract is cash on day one and revenue at £200 a month. Until earned, the remainder sits as deferred income, a liability, because the service is still owed. At Arbor Metrics' scale, with anniversaries spread through the year, the steady deferred balance is £96,000: real money that is not yet real revenue.

This is why SaaS profit and cash move differently, why collecting annually ahead of recognising monthly makes growth partly self-funding, and why spending deferred income as if earned ends badly when refund clauses surface. Corporation tax follows the recognised revenue, not the bank balance. The Revenue Recognition workbook holds both views.

6 Corporation tax when you are built to lose money

Arbor Metrics runs at a loss on purpose. The tax system is better at this than founders expect, provided the paperwork keeps up.

Trading losses carry forward against future profits without expiry, so today's chosen losses shelter tomorrow's profits at up to 25 per cent. The R&D credit pays out in the loss years themselves, which is precisely when the cash matters. When profits do arrive, the small profits rate holds 19 per cent up to £50,000 with marginal relief to £250,000.

What loss-making does not excuse: filing, VAT, payroll, and the ERS returns. Losses need claiming to exist, and a company that files late buys penalties with money it borrowed at a discount to build software. The discipline is boring and worth thousands.

7 Rounds, reliefs and the cap table

Investors in early SaaS companies are usually investing through SEIS or EIS, and the company's job is to not break the reliefs it promised them.

SEIS hands individual investors 50 per cent income tax relief on up to £250,000 into a young company; EIS continues at 30 per cent for larger rounds. Both come with company-side conditions on age, assets and trade, and both die messily when advance assurance is skipped or funds are spent outside the rules.

On the way out, the founders' own relief is BADR at 18 per cent on qualifying disposals up to the £1 million lifetime limit, and EMI holders reach the same rate two years from grant. An exit models as: price, less strike, less the £3,000 annual exempt amount each, taxed at 18 or 24 per cent depending on the relief. The Dilution and Cap Table Calculator on the CFO hub shows what each round does to those stakes before you sign it.

8 The file that raises money

Every funding round ends in a data room, and the companies that raise fastest are the ones whose file was built as they went.

The tax section of that file is exactly what this book has assembled: VAT registrations and treatment per market, the R&D claim with its contemporaneous evidence, the EMI register with valuations and ERS returns, the deferred income schedule tying billed to earned, and accounts whose metrics recompute from the ledger.

Diligence rarely kills deals with what it finds; it kills them with how long finding takes. A clean file is a valuation argument: it says the company measures itself honestly. The free tools on zazentax.com are that file's skeleton, and SaaS Metrics Honestly, the companion book, is the measuring half of the argument.

Where to go next

Start with the R&D position if you spend on development and have never claimed: the six-month notification window is the deadline that cannot be recovered. Then the VAT treatment of your segments, then the EMI paperwork before the next grant.

Every calculator and workbook mentioned in this book is free on zazentax.com, with no email form. They use the same figures, the same conventions and the same worked company as the chapters here.

Zazen Tax

Accountants for software companies. If you would rather someone ran the numbers with you, that is what we are for.

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