

Starting in business

This guide is for whether you have already decided to start a new business, or you are simply considering your first move into self-employment. What do you need to think about before taking the plunge?

We hope this guide will help you make a number of crucial initial decisions and choices. We have touched on some of the marketing issues, but the main focus is on business planning, financial and tax issues.

Are you sure?

Most people who set up their own business will tell you it was more of a challenge than they expected and that it took longer to achieve business success than they anticipated. Here are some of the challenges you need to think about.

Personal sacrifice

Be ready for the physical and emotional demands of starting up in business. Starting a business is a life-changing event and will require hard work and long hours, especially in the early stages.

Financial insecurity

Careful cashflow management is essential. Failure to do this will often result in a big drain on your savings, the loss of your investment and any security as well as the early failure of the whole business.

Loss of employment rights

You will need to take care of yourself as you will no longer receive sick pay or be paid when you are on holiday – indeed you may not have time for holidays.

Pressure on close relationships

You will need the support of your family and friends to help you cope with the pressures of building your new business. You may also need more ‘hands on’ help beyond simple emotional backing.

Broad skills

All businesses need a mix of managerial, financial, technical and marketing skills. If you do not have these skills personally, you will need to learn fast or find people who can provide the necessary input and support.

Isolation

Being your own boss can be a satisfying experience. However, most successful business people need to have or develop a network of contacts with whom to share ideas and challenges.

At the outset

The business plan

A commercial business plan is the key to making a success of your new business. You will need to show it to anyone whom you ask to invest in your business. You will also need to show it to the bank or anyone else who you ask to lend you money. They will all want to

know that your ideas have been thought through and that there is a good chance of getting their money back in due course.

Even if you do not need anyone else's money, a business plan is still a good idea. It can help you avoid many of the most common business mistakes and enable you to achieve success faster.

You may have your dream of what you want to achieve in your business. Can you express it in terms of target income over the next 12 months? And in the next year and the one after that? What will you need to do to achieve those objectives and what will be the consequences and cost of doing so? Drafting the plan and incorporating cashflow projections will force you to consider related issues. For example, what actions you will need to take to achieve your objectives.

Writing a business plan will also help you to focus on all of the costs that will arise and when you will need to have the money available to pay for these. You may need to cover premises related costs, support staff, marketing and promotion, a website, business insurances and so on.

Your plan should include an explanation of how your business will start, build and develop. You also need to know who you are competing with and what will enable you to be successful. The plan should describe the business, product or service, your marketplace, mode of operation, capital requirements and projected financial results.

It's your business and your ideas but we can help you with much of the content of your business plan.

Business structure

Many people assume that everyone who has their own 'business' runs a 'company'. However, the two words do not mean the same thing. There are actually four common forms of business structure:

- *a sole trader* – this is the simplest way of starting and running a business;
- *a conventional partnership* - where you work with one or more partners in the business);
- *a limited liability partnership - LLP* - this provides you and your partners with the protection of limited liability, just as with a company; or
- *a limited liability company* – this means that the business is quite separate to you as a person. It also means that you cannot simply draw money from the business whenever you feel like it.

Which approach is right for you will depend on a number of factors. These include your cashflow projections, your longer term plans for the business, whether or not you need the protection of limited liability, your willingness to comply with legal and administrative obligations and the nature of any investment you are seeking.

There are also tax issues to consider. In many cases it is better to start the business as a sole trader or partnership and only to transfer it into a limited company at a later date. This might be only when it seems that it will reduce the overall tax you pay on business profits.

Please ask for our advice before you decide which approach to follow as the wrong choice could be an expensive mistake.

Business stationery

Even businesses that operate over the internet need letterheads and invoices. Although you can choose the look, layout and design of your business stationery there are a number of relevant legal obligations. These specify certain minimum requirements for the contents of business stationery, both paper and electronic. The precise rules will depend on which business structure you have adopted.

Business name

Choosing a name for your business is a creative and enjoyable process. It is also one that you need to get right. Customers may infer a lot from your business name and first impressions count.

While it may be tempting to try to stamp your individual personality on your business name, there are many other issues to consider. Being objective and choosing a name that reflects your business strategy can be more valuable, especially as your business develops. You will also want to choose a business name that won't be confused with anyone else.

Website

Will your business be reliant on people finding your website when they search for the sort of services you provide or the goods you sell? Or will your website be more for people who already know of you and so that they can find out more information?

The design of your website and the need for any 'search engine optimisation' will depend on what you want the website to do for you and what you want people to do when they arrive on the site.

It is very easy to spend a lot of money on a website. There are also many low-cost options for startup businesses, including blogs that look like business websites.

Whichever approach you choose you will need to ensure that your business website satisfies all legal requirements in terms of your business name and contact details.

Paperwork and records

All businesses need to keep records of all business income and expenses.

These records can be maintained by hand or may be computerised. They should always contain details of payments, receipts, credit purchases and sales, anything you have bought for the longer term (assets) and all the money owed by the business (liabilities). It's also very important to be clear as to the distinction between your money and that of the business – especially if you have a limited company.

It can be expensive to pay someone to sort out all of your paperwork, so it makes sense to establish workable processes from the outset. There are many options here ranging from online accounting programmes, to computer based accounting software, to spreadsheets and paper based data entry books.

We would be happy to recommend a solution that is appropriate for your needs.

Accounts

Your books and records will be used to produce your business accounts. If the records are well kept, it will be easier to create your accounts. If your business grows quickly, you may need regular 'management accounts' through the year.

All businesses must produce annual accounts each year for HMRC. These will show your accounting profit or loss. They will normally also show the assets owned by the business and the monies owed to you and to other people.

The style and detail of your accounts will vary dependent on the level of your turnover (sales) and on the structure of your business.

Limited companies and LLPs are required to produce their accounts according to very strict standards and have to send them to be filed at Companies House each year. Strict penalties are charged for the late filing of accounts.

Accounting year end

At an early stage you need to decide when your first accounting year will end.

You will often benefit from choosing a convenient date rather than the anniversary of when you started in business. Thereafter your annual accounts will normally be produced to record the next 12 months results.

We can help you to decide on the most convenient date for your accounting year end depending on your circumstances and plans.

What taxes are relevant?

Tax on profits

Your taxable profit will normally differ from the profit shown in your business accounts. This is because the tax rules mean that some business expenses are not allowed to be deducted for tax purposes and there are some tax allowances that affect more than one year.

The type of tax you will pay will depend on the business structure you have chosen.

Sole traders and the partners in partnerships are subject to Income Tax on their business profits. Limited companies pay corporation tax on their profits.

Corporation tax rates are generally lower than income tax rates. This does not always mean that less tax is payable if you operate through a company. You will normally also be subject to Income Tax on the monies paid out to you by the company.

Tax relief for losses

If your business does not make a profit initially you may be able to claim tax relief and get a refund of income tax from HMRC. A limited company can only claim back corporation tax that has already been paid. This means that new companies cannot claim any tax relief for losses until after they have made profits and paid tax on them.

National insurance (NI)

The rates of NI contributions you pay are generally lower for a sole trader or partnership than if you run your business as a company. However, your NI contributions also have an impact on the benefits you can claim when you're not working.

Value added tax (VAT)

You will need to register for VAT and add VAT to your prices if your turnover (sales) is likely to be more than the annual registration limit (£85,000 as at 1 April 2022). This should not cause your customers and clients a problem if they are also VAT registered. In

such cases you may actually benefit from registering for VAT even if your turnover is well below the registration limit.

If your expected turnover is in excess of £85,000, you will need to give careful consideration to the accounting software you use as it will need to facilitate VAT filing using the Making Tax Digital protocols. For most businesses this has been a requirement since 1 April 2019.

Correctly accounting for VAT is an essential part of any VAT registered business. Many people describe the system as obliging them to be unpaid tax collectors. Even so, if you fail to comply with your legal obligations you can become liable to penalties and investigations by HMRC.

You can choose from a number of VAT schemes that HMRC offers businesses that register for VAT. When the time comes, please ask for our Introduction to VAT.

Employment taxes

If you pay people to work for you may need to operate a PAYE scheme (more unpaid tax collecting). You will also need to do this if you are a director of your own limited company.

A PAYE scheme means that you deduct Income Tax and NI from the wages/salaries that you pay your employees. The taxman tells you what deductions to make and you then have to pay these over to HMRC. You also have to pay employers' NI on top of the wages and salary payments that you make. So, this is an additional cost of having employees.

As with all other business payments you must keep good records of the payments to your employees and the amounts due to HMRC. They can charge penalties if you do not do this correctly.

Some people who work for you may claim to be self-employed. PAYE will not be due if they are genuinely self-employed or if you are paying a limited company. However, there are strict rules that determine whether someone is or is not your employee. And if you get this wrong it can be very expensive when HMRC seeks additional taxes from you. This happens when HMRC decides that PAYE tax was payable after you have paid people in full.

We can help you with these rules and ensure that you only become an employer when you really need to do so. We can also run your payroll for you if this becomes necessary.

Tax credits

By starting a business, you may hope that your income will be higher than the limits that apply for claiming tax credits. However, it may still be worth registering to claim tax credits even if you initially receive a 'nil' award from HMRC. This is what happens if your income forecasts are too high. However, if, in the event, your profits are lower than you had hoped, or you make a loss, you can tell HMRC. If you now qualify for tax credits you will then receive a backdated tax credits award.

What else?

Premises

You may plan to work initially from home, or you may need an office or a place where you can sell to the public.

Whichever option you want to take there are a number of factors to consider including:

- cost – at the outset and each year (including rent, rates and services)
- suitability for purpose
- compliance with legal regulations
- local by-laws
- physical restrictions such as access.

If your business is based at your home you will normally be able to offset certain costs against your taxable profits. This will depend on a number of factors including the size of your home, how many rooms you use for business purposes and the amount of time you spend working at home.

Cars and vans

If you will need a vehicle to run your business you may want to arrange this in a tax efficient way. The rules operate very differently dependent on whether or not you have a limited company. If you do have a company you also need to decide whether you or the company will own the car/van.

Certain vehicles qualify for special tax reliefs. There are also different ways to account for the costs of running a car that is used partly for business and partly for private purposes.

Insurance

You will be legally obliged to arrange comprehensive insurance for business motor vehicles and employer's liability insurance. You may also want to consider public liability insurance, consequential loss insurance, and cover for your business assets – even if these are kept at home. Other insurances that may be worth considering are Keyman and bad debts cover.

Pensions

Putting money into a pension scheme can be a way of saving for retirement because of the favourable tax rules. Many businesses have to provide access for their employees to a stakeholder pension.

How we can help

Whilst business success can never be guaranteed, professional advice can help to avoid some of the problems which befall new businesses.

We would welcome the opportunity to assist you in setting up your business. We can also help you establish a suitable strategy to build your business. And we can provide you with key services such as bookkeeping, management accounts, VAT returns, payroll, annual accounts and tax returns.