Lovewell Blake
Different because you are

New Business Kit

Starting a new business

A guide to help you navigate the financial, tax and accounting considerations of starting your own business

2019/20

Accountants | Business Advisers | Financial Planners

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1. Introduction

All businesses are different, with different needs and requirements.

At Lovewell Blake we recognise that our clients demand a unique service tailored to their individual needs.

As trusted adviser to our clients our ultimate beliefs are that expert advice should be easy to understand and always add value.

Our clients value us as their adviser because we make a point of understanding the needs of every individual client, each one is different and we make sure that we know what their aspirations, likes, dislikes, family set-up, history and commercial operation are. This allows us to wrap individual service and advice around each of our clients. This is over and above the straightforward services you should expect from any professional accountant and financial adviser.

Our aim is to give you the freedom to be able to throw off the administrative shackles and thrive in business. We have been advising successful businesses for more than 160 years in East Anglia and believe that to be the best we need to be different… because you are!

2. Starting up in business

Becoming your own boss can be one of the most exciting things you can do in your life. Whatever your reasons for 'going it alone' this excitement can be coupled with concern and worry surrounding the risks you may be taking and the challenges of running your own business. This is only natural and a good way of reminding you to be organised.

Before starting up

If you are moving from an employed position with a guaranteed income from your employer the risk of starting fresh on your own can be a major financial decision. Whilst the entrepreneurial spirit is admirable not everyone has the right attributes and attitude to succeed.

It is important that you develop a robust business plan which covers the cash flow required to service business demands and your own income requirements. Often it can be tempting to be overly optimistic at this stage, but prudence is key and experienced support can be invaluable.

There are two key aspects at this stage. Firstly, to understand your market and customers inside out. Quite often this is an area of strength for most new entrepreneurs and is absolutely crucial from the outset.

Secondly, and often overlooked, is the need to understand all the incomings, outgoings and timings. Customers will quite often demand credit terms, and as a new business you are unlikely to receive the same privilege. Cash flow will therefore have to be properly understood and forecast.

An experienced accountant can add so much to your plans at this stage, freeing you up to concentrate on the market and your customers – the reason you started your business in the first place.

However you plan to proceed in the early days of business, the compliance commitments need to be properly considered. This document provides insight and advice on the key areas where you need to focus your attention in the early days.

Ask your prospective adviser what they will bring to your business, and what experience they have in your sector. Basic compliance is a small element of the overall benefit a good adviser can provide. A good chartered accountant should suggest tax efficient ways of structuring and managing your business, but also have the credibility and track record to back up their advice and add value over the long term.

2. Starting up in business

Selecting the right professional advisers

Starting your own business entails a multitude of decisions which can seem overwhelming without the right players on your team. In order to succeed, you need to equip yourself with every tool at your disposal.

One of the most cost effective tools you can utilise is the expertise of a specialist. The right accountant and solicitor can eliminate a host of problems and potentially costly errors you might make as you build the financial foundation of your successful business.

As any coach can tell you, having a first rate attack (in this case, "you") won't guarantee a winning team without a first rate line of defence. The right accountant and solicitor are your best defence. Their expertise can help save you money that in turn can be used to increase profits.

When enlisting the expertise of an accountant and solicitor, you want a specialist suited to meet your specific needs. You want a specialist who will listen to you. More importantly, you need someone you can and will listen to, as they devise strategies to help you to succeed.

You want to succeed – and you can. By taking the time to make key decisions and enlisting the right players on your team – you will succeed!

We wish you success and welcome you to the wonderful world of free enterprise.

3. Selecting a legal entity for your business

One of the first major decisions you will have to make as you start your new business is the form of legal entity it will take. To a large degree this may be dictated by the way you have organised your operations and whether you intend to work on your own or in conjunction with others.

The form of entity you choose can have a significant impact on the way you are protected under the law, the way you are affected by taxation rules and regulations and administrative costs of operation. There are four basic forms of business organisation, each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

Sole proprietorship

A sole proprietorship is typically a business owned and operated by one individual and often referred to as a sole trader.

Tax is paid on profits arising from the trade at income tax rates. In addition National Insurance Contributions will be due. At reasonable levels of income, the tax falling due is relatively high compared to other types of structure.

This is the most straightforward structure and as a result compliance fees are likely to be lower. The financial information is not available on public record.

The business owner is the business and so the default position is that any debts or liabilities of the business equally apply to the proprietor. Many of these risks can be insured against but clearly care and good advice is needed.

Partnership

In a partnership, two or more individuals join together to run the business enterprise.

A partnership tax return is prepared and the profits allocated to the partners. Income Tax and National Insurance Contributions are due in similar arrangements to sole proprietors.

For a multi owner business a partnership is the simplest structure. Partnership Agreements are used to detail the rights, responsibilities and obligations of the partners. Financial information is not available to the public.

Partnership creditors typically have recourse to the personal assets of each of the partners for settlement of partnership debts. This level of risk must be properly understood before investing in a partnership.

Limited Liability Partnership

The Limited Liability Partnership ("LLP") is similar in principle to a partnership but with some key differences.

The members or partners of the LLP are taxed in a similar way to partners of a partnership. Partners declare their proportionate share of income on their personal tax returns each year.

As a separate legal entity, an LLP is required to prepare and file financial statements each year which are placed on public record. As such there is likely to be an element of higher cost with regard to the production of these accounts.

However, the key benefit to an LLP is that the partners have liability protection. Partners are personally protected from the debts of the business to a maximum of the amount contributed to the business capital.

This is in contrast to a partnership where liability is generally uncapped.

3. Selecting a legal entity for your business

Limited companies

A limited company is a separate legal entity and is responsible for its own affairs. It is run by directors and owned by shareholders.

Company accounts are required to be delivered to Companies House each year, although small companies can restrict the trading information provided.

Limited companies provide their shareholders with legal protection from company creditors. This protection, coupled with lower tax rates, result in this option being very popular.

Whilst the corporation tax rate is historically low at 19%, it has become more costly to extract profits from a company in recent years. Dividends attract a basic tax rate of 7.5% with the annual dividend allowance now £2,000 per year.

The responsibilities of being a director should not be taken lightly and professional advice is crucial.

Should you decide to incorporate your business venture, you should seek advice from a chartered accountant such as Lovewell Blake. There are tax opportunities and pitfalls which need to be properly understood.

We can also assist in forming the company through our appointed agents and taking control of the filing deadlines on your behalf.

4. Registering with tax authorities

There are many regulatory requirements you will have to comply with as a new business owner. Not least is the need to register with HMRC for relevant taxes and schemes. Problems and penalties could arise if registration is not completed in a timely fashion. This section summarises some of the more prominent requirements.

HMRC is moving towards electronic forms and online notifications. You can appoint your adviser as your tax agent so these tasks can be dealt with by them on your behalf.

Business tax

It is necessary to notify HMRC of your existence by completing forms CT41G (companies) or CWF1 (sole traders/ partnerships). You can also register online with HMRC to notify self-employment.

The company form CT41G is sent to all new companies after they are incorporated. The form notifies HMRC of your accounting date, your accountant, and also enables a PAYE (Pay As You Earn) scheme to be set up, which is a requirement if you are to be an employer.

If you fail to register within the first three full months of commencing business, you may face a penalty.

National insurance

Depending on the level of profit, sole traders and partners may have a liability to Class 2 and Class 4 NIC. Previously collected monthly or quarterly, Class 2 NIC is now collected annually as part of income tax and Class 4 payments.

Value added tax

You need to consider if it is beneficial to be VAT registered from the outset. If you are registering for VAT, form VAT 1 needs completing, and if you are a partnership, form VAT 2 also needs to be completed giving details of all the partners.

The current VAT registration threshold is £85,000. If you are likely to turnover more than this during the first 12 month trading period you should register immediately.

Otherwise it may still be beneficial to register depending upon the VAT status of your customer base and your business activities. It is important you take advice on this topic.

To register online or for further information go to: https://www.gov.uk/vat-registration/how-to-register

Below are key dates from the tax calendar.

Date	Return
Annually	
19 Apr	Final wages declaration submission due
6 Jul	Submission of form P11D reporting benefits in kind
19 Jul	Payment of Class 1A NIC
30 Sep	Payment of corporation tax for accounts prepared for the 31 December year end (9 months after end of accounting period) for example
Nov/Dec	Year-end tax planning—for 31 December year end for example
Quarterly	
14 Apr 14 Jul 14 Oct 14 Jan	Forms CT61 to be submitted - tax deducted/received on interest payments
Quarterly	VAT returns (can be monthly or quarterly)
Monthly	
19	Payment of payroll taxes (under certain circumstances—quarterly)

5. Accounting and bookkeeping

Most owners of new and growing businesses have a flair for the environment in which the business operates. You may be a great salesperson, an outstanding mechanic, talented carpenter, excellent solicitor or creative inventor, but it is not common to enjoy keeping the books!

Many business owners see bookkeeping as a compliance task which can be pushed to the bottom of the pile until the deadline. However, neglect this task and you will be putting yourself at a severe disadvantage.

A good adviser will be able to help you with a range of support, from taking control of all administrative functions to ad hoc phone assistance as you need it. Decide on a support solution which works for you, your business and your budget.

The necessity for good, well organised financial records cannot be over emphasised. One of the biggest mistakes made by small business owners is not keeping good financial records and making improper or poor business decisions based on inadequate information. Instinct alone is not enough.

Many make the mistake of over investing in a complex and expensive accounting package. Ultimately, your accounting system must be the right fit for your business. Upgrades can always be added to complement expansion, but seeking advice on the best match for your business is important. Interpretation of the data is the key output as understanding what the numbers mean and how to use them to make commercial decisions is invaluable.

Automated systems alone will never be enough to provide the rounded support package you need. Ensure you operate the most suitable accounting system but do not neglect regular contact with your adviser. A good accountant will be able to utilise their experience to add value to your business.

Chart of accounts

The basic road map into any accounting system is the chart of accounts. It is this chart that helps establish the information that will be captured by your accounting system, and what information will subsequently be readily retrievable by the system. This tool, like the rest of the accounting systems, needs to be dynamic and should grow as the size and needs of your business change.

To help establish a good working chart of accounts you need to answer some questions, in conjunction with your accountant, as to how your business will operate and what is important to you. Some of these considerations might be:

1. Will your business have stock to account for? If so, will it be purchased in finished form or will there be production costs?
2. Are fixed assets a significant portion of your business?
3. Will you sell only one product or service or will there be several types of business?
4. Will you have accounts receivable from customers, which you will have to track?
5. Are you going to sell in only one location or will you do business in several places?
6. Are the products you sell subject to VAT?
7. Do you need to track costs by department?
8. What type of government controls or regulatory reporting are you subject to?

5. Accounting and bookkeeping

Each one of these questions can have several answers and will probably generate more questions. Each answer will have an impact on how the chart of accounts is structured. It may seem that developing a chart of accounts is not particularly high on your list of things to do as you start a new business. The amount of time and money a well organised accounting system may save you can be significant as the need to generate information for various purposes increases.

Accounting records and record keeping

Another question that the owner of a business must answer is "Who will keep the books of the business?" Will you do it yourself, will you employ or contract a full or part time bookkeeper, will someone else in the business 'double up' as bookkeeper or will the duties be externally outsourced to an accountant.

Quite often bookkeeping is undertaken by the proprietor in addition to other duties which are often considered more important. Put simply, bookkeeping and record keeping is important and so if time constraints are pressing it may be the best idea to take on some assistance for these tasks.

It is important that you keep control over the business finances but this can be done by approving wage runs, signing cheques and reviewing management accounts.

Whether you maintain the bookkeeping function yourself, utilise assistance or outsource the entire process, we can assist you to ensure this is the right and most cost effective decision. We can also ensure you are using your time in the most efficient and productive way by monitoring and controlling certain key aspects.

Accounting software

A computerised accounting package will almost always be the most appropriate option. Modernised interfaces make these packages relatively easy to use and operate. There are many providers and packages to choose from, but it can be easy to pay for options and functions you don't need. Make the software work for you by setting your expectations of delivery from the start and matching a package which delivers information and value.

Many providers are now moving into Cloud based systems which store your data in the 'cloud'. The convenience of being able to log into your data from anywhere and provide others, such as your accountant, with log in access can be extremely useful. The cloud will automatically back up your data too. Be sure to consider the ongoing subscription charge of a service with the one off payment for the product based disc when making your decision.

At Lovewell Blake we can work with you through the cloud accounting journey and take on as much or as little of the admin as you need. We also regularly host workshops and masterclass sessions to help you understand your finances inside out.

Check out Xero for yourself online and if you want to combine cloud technology with great advice and peace of mind, get in touch.

5. Accounting and bookkeeping

Internal control

What is internal control? It is the system of checks and procedures within a business enterprise that helps to ensure that the company's assets are properly safeguarded, and that the financial information produced by the company is accurate and reliable. When you are operating as a "one man shop", or at least handling all of the company's financial transactions, maintaining good internal accounting control is relatively straightforward.

However, when your company grows to the size where you must delegate some of the functions, it becomes more difficult to ensure that all the transactions are being accounted for properly.

No matter the size of your business, you should always be able to answer "YES" to the following questions:

1. When my company provides goods or services to our customers, am I sure that the sale is recorded and either the debt is recorded in accounts receivable or the cash is collected?

2. When cash is expended by my company am I sure we received goods or services?

The method used to ensure that these two questions can be answered affirmatively will be widely varied.

They are essential stepping-stones to maintaining good control in your business. The solution in your particular instance may be as simple as numbering the sales tickets, and being sure all tickets are accounted for or reviewing all invoices and timecards before signing company cheques.

These are fundamentals in a well-run business. As the company grows, you will need to consider concepts such as segregation of authority or controlled access storerooms. No matter what the size of your enterprise, you should consider controlling your business and safeguarding hard earned assets as a priority from the outset.

Making Tax Digital

For VAT registered businesses, reporting of trading data to HMRC electronically has been compulsory from April 2019. Most software and computerised bookkeeping services are compliant, however you should check with your service provider.

If you are not yet using bookkeeping software and will be required to register for VAT you should make steps to convert your systems before registration. We can help you every step of the way to ensure you are compliant with MTD.

6. Value added tax (VAT)

VAT is a tax on consumer spending and should ultimately be paid by the final customer. As a business you may be required to collect VAT from your customers and pay VAT to your suppliers. The balance will be due to HMRC.

Most business transactions involve the supply of goods or services and VAT is payable if they are made:

- in the United Kingdom
- by a taxable person
- in the course or furtherance of business and are not specifically exempt or zero-rated

VAT is collected by HMRC and is normally payable quarterly.

When you commence in business you need to consider whether to register for VAT or not. You may be required to register due to business size or you may wish to register voluntarily for other reasons.

Compulsory registration is generally required if business turnover exceeds the registration threshold in the preceding 12 month period, or is forecast to exceed the threshold over the next 12 months. Be careful if you are acquiring an established business as you may be required to register for VAT immediately. The current registration threshold is £85,000.

Even if you are not required to register for VAT you may wish to do so voluntarily. If your customers are all VAT registered themselves, they will reclaim any VAT you charge so whether you are registered or not is irrelevant to them. However, by registering you can reclaim VAT on any relevant purchases or supplies.

On a similar note if your sales are all zero rated you will not have to collect VAT from your customers, but you will be able to reclaim VAT on your costs (as above). Be sure to seek advice on the differences between zero rated or exempt supplies in this scenario.

Many register for VAT simply to show their customers that the business is of a reasonable size. As with incorporating a limited company, registering for VAT is generally a trait of a larger business so can be done voluntarily for this reason.

If VAT registered, your business will be required to file VAT returns, generally on a quarterly basis, and pay over any VAT it owes. There are tighter rules around invoicing too, you need to ensure that your sales invoices contain all the required information to meet the definition of a VAT invoice.

Record keeping must therefore be up to date and reliable. It is likely that over the lifetime of the business HMRC will visit the business to undertake inspections on a regular basis. Maintaining accurate accounting records will often result in future visits being less frequent.

VAT returns are submitted electronically either online or via your accounting software and payments made online. The due date is generally one month following the end of the relevant VAT quarter.

We can help in many ways from outsourcing the entire VAT function to quarterly visits to check your records and file the VAT returns for you. Ultimately you will settle down to a system which works for you, but support in the early stages can make a significant difference.

6. Value added tax (VAT)

Flat rate scheme

If you do register for VAT but your turnover is less than £150,000 you may be eligible to join the flat rate scheme. This makes the administration of VAT simpler as you pay over a fixed percentage of your turnover to HMRC rather than the balance of output VAT less input VAT.

Flat rate scheme rates were renewed and updated in 2017. For many business the advantages of the scheme have been dramatically reduced but it could still work well if you have a reasonable supply of goods. Speak to an accountant to discuss further.

Cash accounting basis

Usually you pay VAT based on the difference between sales invoicing and purchase invoicing. Under this scheme you pay VAT based on actual payments and receipts rather than invoices. This scheme can therefore assist with cash flow where you grant longer credit terms than you receive from your suppliers.

Taxable persons and supplies

a. Taxable persons

It should always be remembered that it is a person (or entity eg limited company) that is registered for VAT and not a business. Therefore, you cannot hide from the registration obligation by setting up extra businesses each with turnover under the threshold.

It can be possible to structure businesses across different arrangements such as one limited company and one partnership. However, you should always seek advice on this matter as HMRC do have the power to treat two as one. In addition, VAT status should not be the only consideration when structuring your business affairs.

b. Taxable supplies

Taxable supplies are all supplies made by a business either to a third party or to the trader himself, which are not exempt supplies or outside the scope. Taxable supplies therefore include zero-rated and reduced rated supplies.

c. Exempt supplies

Not all supplies are taxable, as per the list below, some are exempt from VAT. If your business is making exempt supplies, then further considerations are necessary when calculating how much VAT to recover. Planning is essential to ensure that VAT recovery is maximised, and businesses who make exempt supplies should seek advice.

The most common exempt supplies are:

- land and property
- insurance
- postal services
- betting, gaming and lotteries
- finance
- education
- health and welfare

6. Value added tax (VAT)

VAT rates

There are three taxable rates of VAT:

1. 20% - the standard rate of VAT, applying to most standard-rated goods or services.
2. 5% - for certain supplies of fuel, power and sanitary goods etc.
3. Zero-rated - the four main areas of zero-rated supplies are:
   - food and agriculture (but excluding pet food and most catering).
   - printed matter, including books and newspapers.
   - young children's clothing and footwear.
   - passenger transport (but excluding hire cars, taxis and parking).

Any VAT charged by the business, whether at 20% or 5% is known as output VAT and the total charged or collected in the VAT quarter is payable to HMRC.

Input VAT

Input VAT is the VAT that you are charged on your business purchases and expenses (your suppliers' output VAT) and is normally recoverable in full by a trader who only makes standard rated or zero-rated supplies.

Businesses that make some exempt supplies (known as partially exempt businesses) have different recovery rules. The total input VAT suffered in the quarter is deducted from the output VAT charged or collected, and the difference is either the amount of VAT due to HMRC or the amount repayable by HMRC. The majority of input VAT is recoverable but there are special rules for:

- cars
- petrol or goods supplied for private use
- business entertaining
- goods sold under a VAT second-hand scheme

To reclaim VAT you have been charged as input VAT, you must hold valid evidence that you have received a taxable supply, which normally means a valid VAT invoice from a registered trader showing his VAT number and the amount of VAT charged.

VAT Checklist

Registration

1. Should the business be registered?
2. Is the basis of registration correct?
3. Are details on registration certificate correct?
4. Do procedures exist for notifying HMRC of relevant changes?
5. Review position at regular intervals.
6. Is the cash accounting scheme for VAT available and would it be beneficial?
7. Is the annual accounting scheme available and would it be beneficial?
8. Is the flat rate scheme available and would it be beneficial?
9. Are any of the special schemes for retailers applicable?

Preparation of VAT returns

Online filing is now compulsory.

Review sources of information.

Prepare draft return.

Check for accuracy and completeness.

Submit the return and make applicable payment.

Getting advice

VAT is a potentially complex area and one you cannot afford to get wrong. From a compliance and planning perspective it pays to seek advice from the outset.

7. Payroll

If you intend to employ others you need to understand your commitments and obligations. This goes much further than paying your staff on time.

Correctly calculating PAYE and National Insurance deductions together with declaring benefits in kind, increase the administrative burden.

Do you have employees?

Whether an individual is an employee or not in a particular situation is a question of fact depending on the terms on which he/she works. The question of whether an individual is employed or self-employed is very important for the business "employing" him or her, as that business has to comply with the reporting requirements.

In certain areas HMRC has placed emphasis on reclassifying individuals claiming to be self-employed. If you have treated someone as self-employed and subsequently after a routine visit from HMRC it is clear that they were employees, then the tax and NIC which should have been paid will be assessed on the employer. Therefore, it is important to ensure when using the services of self-employed people that they are in fact self -employed. If doubt exists as to the status of an individual, the situation can be clarified with HMRC. Your adviser should also have experience in these matters.

The operation of a PAYE scheme

Upon registration, HMRC will send you a guide for new employers, and also details of where you can find help with various payroll matters on their website.

Real time information and payroll software

A system of Real Time Information (RTI) requires you to report your employees' payments and deductions to HMRC on or before each pay day. You will need to use RTI-enabled payroll software to do this. The software can also help with tasks such as calculating employees' pay and deductions, recording employee details and calculating the amount that you need to pay over to

If you have less than 10 employees, there is free payroll software available, including HMRC's own Basic PAYE Tools. For 10 employees or more there is other commercial payroll software that can be purchased or you can use the services of a payroll provider.

Payroll can be complex and time consuming. Lovewell Blake offers a bureau facility for processing your payroll and supplying you with reports, payslips etc. If you have any questions or would like to discuss how we may be able to help you, please do get in touch.

Auto-enrolment

All employers are caught by the new workplace pension provisions. As an employer you will have to comply. These provisions state that you must enrol all qualifying employees on to a pension scheme, deduct contributions from their salary and contribute as an employer. Employees can opt out but you cannot request or encourage them to do so.

You can find out the date you need to be compliant by, your 'staging date,' online. Compliance is not optional and the business must give this matter consideration and ensure you are compliant in advance of your staging date.

Lovewell Blake Financial Planning can take the pressure off these obligations and handle the entire process for you. It is crucial you consider auto-enrolment early and we can help you every step of the way.

7. Payroll

Benefits in kind

In most businesses, the directors, and often the employees, have benefits that are not immediately taxed through the PAYE system, the most usual being the provision of a car and possibly fuel. Additional benefits such as private medical insurance are also becoming popular with employers.

Class 1A National Insurance Contributions (currently 13.8%) are due on the taxable value of these benefits in kind and are due on the 19 July following the fiscal year in which the benefits are made available. In addition, HMRC requires on an annual basis a form P11D (Return of expenses payments and benefits) for all directors and employees receiving remuneration.

The form is also used to report reimbursed expenses, such as employee travel and subsistence. It was previously possible to apply for a dispensation from reporting some expenses but dispensations no longer apply.

Exceptions have replaced dispensations and you do not need to apply for an exemption if the allowable expenses you are paying to your employees are in accordance with HMRC's benchmark rates. If you intend to pay bespoke rates to your employees an exemption will however have to be applied for. Expenses covered by an exemption do not need to be reported.

Getting advice

Payroll is one of the most common functions many employers decide to outsource. With RTI and auto-enrolment now in force this is only likely to increase. Lovewell Blake provides a leading payroll bureau service and complemented by advisers from Lovewell Blake Financial Planning we can ensure not only compliance but also work with you to ensure your employees receive the best possible pension provisions.

If you decide to administer your own payroll function we can complement this with advice, assistance and expertise as and when required.

8. Income and corporation tax

Tax on your profits, whether it be income tax or corporation tax, is an extremely complex area and one which is constantly changing. This is an area you will definitely need to engage a tax adviser to handle for you. Ensure your adviser has adequate tax credentials as the cost of getting this area wrong can be significant and will be levied on you.

You should ensure that your accountant is also a tax adviser and has experience advising your type of business. The value a good tax adviser can add is often underestimated, and when choosing your adviser ask for examples of their work with similar businesses. The payment of taxation has a direct impact on your cash flow so efficiencies can make a big difference.

Choice of year end

Which accounting year should I choose?

Put simply, as a sole trader or partner you will declare your annual profit in the tax year on which the final day of your accounting period ends. You then pay your tax half yearly in January and July with the balance due 10 months after the end of the tax year.

This means that tax due on profits generated in an April year end may not fall due until almost 2 years later, initially. This deceleration of tax liabilities can be useful if profits are forecast to grow in early years. Conversely, if you want the use of trading losses sooner, then a March year end can be a good choice.

The implications of the year end you choose may not ultimately unwind until the business ceases and the concept of overlap profits, where periods of profit are double taxed initially and then released upon cessation, need to be properly understood.

It will also be necessary to bear in mind the seasonality of your business. As part of the profit for your first period of trading could be taxed twice, it would be unfortunate if a poor choice of accounting date were to accelerate the tax on the profit of your first busy period.

As ever, it is important not to overlook commercial considerations. Your bankers might want to see as healthy a profit as you can manage and this desire could with tax planning. A solution would be to choose an efficient tax accounting date, and keep the bank happy with quarterly management accounts. Whatever your main focus, you need to bear in mind other considerations and take advice where required.

The rules for limited companies are less flexible with tax due 9 months after the company year end. Timing of the year end work should still be considered though as coinciding with your quiet time of the year can be administratively beneficial.

Tax returns

Companies

The current rate of corporation tax is 19%. This is one of the lowest rates of corporation tax in developed economies and makes the UK an extremely beneficial place to do business.

A company is required to prepare a form CT600 (Company Corporation Tax Return) for each financial year and file this with HMRC. The tax due is payable 9 months after the year end for small companies. Large companies are required to pay their tax in 4 quarterly instalments in months 7, 10, 13 and 16 of the relevant financial year with balancing payments falling due 9 months after the year end.

The company is required to send its completed form CT600, accounts and tax computation to HMRC by the filing date, which is 12 months after the end of its accounting period. Penalties will be charged if it is late. These accounts and returns need to be submitted online to HMRC in iXBRL format. This is a form of automated online filing which was developed by HMRC.

8. Income and corporation tax

Your accountant should use automated software to prepare your tax return and computations, and should also be able to tag your accounts for the purposes of online filing. We can undertake these additional measures seamlessly as part of the year end accounts preparation process as your tax agent.

This also means that we will be notified of any queries HMRC raise into your affairs and we can monitor your filing deadlines and outstanding liabilities on your behalf, keeping you abreast of your filing and payment commitments.

Whilst the businesses tax affairs are ultimately your responsibility, a good tax adviser can take the headache out of tax compliance.

Sole traders / partnerships

Sole traders and partnerships are charged income tax at the rate applicable to the individuals during the fiscal years (6 April - 5 April). The rates are as follows:

	2020/21	Rate
Basic - first	£37,500	20%
Higher – up to	£150,000	40%
Additional - over	£150,000	45%

Every individual is also entitled to a standard personal allowance. In the 2020/21 tax year the amount is £12,500 and means that no income tax is due on the first £12,500 of earnings. Earnings over £100,000 restrict the personal allowance by £1 for every £2 over this threshold.

There will also be a liability to class 2 and class 4 National Insurance Contributions, depending on the level of profit in each fiscal year.

Both class 2 and class 4 contributions are now levied annually together with income tax. Class 2 contributions are at a weekly rate of £3.00. Class 4 NI is payable by the self-employed on profits as follows:

	2020/21	Rate
First	£9,500	Nil
Next	£40,500	9%
Above	£50,000	2%

Earlier in this document we touched on the tax advantages of incorporating your business as a limited company. These rates demonstrate how this can be a sensible consideration. Companies incur tax at 19%, whilst as an individual you could suffer tax at rates of 45% and also incur national insurance contributions as well. However, this simplistic view ignores the potential tax cost of extracting funds from companies and the other considerations of incorporation such as risk and administrative cost.

This is an ever moving picture. Whilst announced increases to class 4 NI contributions have since been reversed, this is clearly an area of interest.

We work with you to focus on tax efficiency, but also present the wider considerations and implications relevant when making important decisions.

9. Cash flow, obtaining credit and financing your business

"Turnover is vanity, profit is sanity and cash is reality". Put simply, you are in business to make money.

There is no point making sales which do not generate profit and why work hard to secure a contract with a customer who is unlikely to pay? Cash is king!

Almost all new business ventures will need to borrow money but where is the best place to source financing? What are the costs and risks of debt? What about equity financing? Should you relinquish a share of your business to generate capital for rapid expansion?

Cash planning and forecasting

Being in control of your cash and being able to accurately forecast your future requirements can see your business succeed or fail in the early years. Customers may request credit terms and you may not be fortunate enough to be granted the same benefit from your suppliers. Either way you are likely to require an initial spend and then be subject to peaks and troughs in cash levels.

If you are applying for a loan, overdraft or other source of funding (debt or equity) you will likely be required to produce a business plan and as a minimum a forecast. Forecasts can be profit based or cash based. Cash flow forecasts tend to be most popular with banks as it should demonstrate when you will need funding, how much and for how long. This will allow banks to tailor their offer to the specific needs of your business.

Whether or not you need to produce forecasts for any potential funder, these ongoing control documents provide you with piece of mind as to the predicted levels of cash.

Clearly this is not an exact science but starting out with a prudent set of assumptions, which can be defended if necessary, will lead to a robust set of forecasts.

Remember that when preparing cash flow forecasts, the relevant date is when the cash will arrive or leave your bank account. So don't forget that quarterly VAT payment, monthly PAYE amount or the importance of the credit terms agreed with your customers.

We can work closely with you to prepare detailed or summary business plans, cash flow forecasts and profit projections. Banks often place more reliance on professionally endorsed or prepared forecasts. We have a working relationship with all the major banks and a solid reputation for quality built up over 150 years.

Debt financing sources

Banks

The first source of funds which typically comes to mind when borrowing money is a bank. Banks typically lend to small businesses on a secured basis, preferring bricks and mortar as security in preference to equipment, stock or debtors. The more liquid and readily saleable the assets you have to offer as security, the more acceptable they are likely to be to a banker. Credit from a bank may take several forms such as:

- an overdraft. Flexible but generally expensive and likely to be reviewed annually.
- loans. Short term or long term, both are likely to require significant security. Interest rates can be fixed or variable.
- invoice discounting. Debt is a percentage of and secured on your debtor book. This can be a flexible and cost effective form of financing. Popular in recent times.
- lease financing. Either purchase equipment or refinance secured on an asset such as plant or machinery. More certain but be careful of fees and charges.

9. Cash flow, obtaining credit and financing your business

Trade credit

A very important source of financing for your company may be from the creditors and suppliers with whom you do business. Many suppliers will originally ask for cash on delivery or, in some instances, they want payment before starting on your order, depending on the nature of your purchase. Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested.

Equity financing sources

Equity financing usually means selling a portion of your business. This can be accomplished in a number of ways including the issue of ordinary or preference shares. Equity investments are usually carefully tailored to meet the needs of both the company and the investor.

Venture capital companies

A venture capital company or fund is typically a company that is in the business of taking risks. A venture capital fund is often backed by a group of investors that may be individuals or companies. The investors are often represented by a management group that evaluates potential investments and manages the existing investment portfolio.

Private individuals

Very often, individuals who are successful in their own right and have accumulated substantial wealth may be looked to for investment in your business venture. Such individuals may believe that the success of your business may enhance their own as well as help increase their personal wealth.

Equity financing through external investors is not an area to be taken lightly. You are effectively selling a share of your business and the profits you make will be shared with them. Of course there are limitless ways that equity financing can be structured so make sure you take advice if you are considering this option. Lovewell Blake's corporate finance team have significant experience in this area.

10. Other considerations

Starting a business is so wide ranging that to boil the areas of focus down into a document this size is impossible. The previous sections provide a good starting point.

Set out below are a few further topics to consider when commencing in business. Hopefully you will have picked up the theme throughout that good advice can go a very long way both in terms of satisfying your compliance requirements and adding considerable value to your business. As any business owner knows, getting great value from your suppliers is key and a great chartered accountant can play an important role in the development of your business.

Insurance

Your insurance broker can help you review the amount of coverage your business requires. Usually you will want to insure against risks that could have significant detrimental impact on your business. This normally would include items such as fire, storm damage, theft, employers' public liability and products liability.

Depending on the nature and size of your business, it is often a good idea to self-insure for all or a portion of certain losses. Often raising the deductible excess can have a very favourable impact on the policy premium.

The insurance cover required by law is employers' liability and third party motor insurance. Your insurance broker can explain the required cover and help you purchase the correct policy. You must be aware that the terms of your building, office lease or mortgage may require you to carry certain kinds of insurance cover in specified minimum amounts.

There are many other types of policies that you may wish to consider. Specific cover is provided by each policy and a qualified insurance broker can explain the related costs in-depth.

Some types of insurance cover that you should consider for your business are listed below:

1. Commercial liability insurance:
   - public liability
   - employers' liability
   - products' liability
   - professional indemnity
2. Property
3. Business interruption
4. Fidelity guarantee
5. Directors' and Officers' liability
6 Key person protection
7. Partnership protection
8. Shareholder protection
9. Tax Investigation Cover

Human resources

Your employees have a big impact on the reputation, market position and ultimately profitability of your business. It is therefore important that you remain up to date with best practice and employment law legislation, in order to effectively manage the employment relationship and resolve any difficult issues that may arise.

Contract of employment

The majority of employees are legally entitled to be provided with a written statement detailing the main terms and conditions of employment, within the first two months of commencing employment. There is specific information that must be provided to employees within this written statement. The written statement provides the legal document to ensure that the company's expectations are outlined to the employee, it also provides further protection and flexibility to the business; for example if the employee undertakes a role which makes them privy to confidential information that you would like to protect.

10. Other considerations

Marketing

Depending upon your sector, how you should best market your product or service can vary enormously. Below are a number of areas you should familiarise yourself with. With advanced technology it is often easy and cheaper to advertise than it ever has been before.

Branding

Companies can spend considerable amounts on branding and this may be an important area for your business concept. You have the opportunity to create a brand from scratch and this can be something you will not be able to do twice.

Company website

It is important these days to have your own website. Customers will search for you online and you want to be in control of the link they click through. A basic profile should contain product and contact details, but if your product or service suits online selling then explore automated booking or purchasing systems.

Social media

Facebook, Twitter and LinkedIn are all fantastic ways of promoting businesses and individuals. Do not be scared of social media, use it to your advantage and if in doubt seek expert support.

Trade specific websites

Depending on your sector, there may be specific websites you need to know about. For example, businesses in the hospitality sector should embrace Trip Advisor. Guests can post reviews of your business without you even being aware and others will be able to search for these reviews. Taking control of your site and posting responses to reviews can really boost your profile.

Business coaching

You may know your product inside out, or have spotted a market niche. You may have been made redundant and looking for something different. Whatever your reason for setting up in business you probably don't have the full range of skills to hit the ground running.

At Lovewell Blake we offer business coaching services to help you to:

- increase your effectiveness
- improve your decision making and performance
- resolve issues which concern you.

The development of our coaching services is based on many years' experience in working with owner managed businesses as well as involvement in specialist coaching courses. We believe we are leading the way in offering this form of help for business owners.

11. New business checklist

Whilst it is impossible to include everything that you need when starting a business, this checklist covers the main areas relating to tax, accounting and general matters.

- ☐ Have you or your accountant registered you with the tax authorities?
- ☐ Have you completed an HMRC form CWF1/CT41G as appropriate?
- ☐ Have you considered the possible tax advantages/ disadvantages of different year end dates?
- ☐ Have you planned your remuneration package in a tax efficient way, considering the advantages of salary v dividend v benefits?
- ☐ Have you considered compulsory/voluntary registration for VAT?
- ☐ Have you considered whether you are operating the most tax efficient VAT scheme?
- ☐ Do you know when your year end tax return is due?
- ☐ Do you know when your VAT return is due?
- ☐ Have you considered whether there are any tax claims or elections which should be made?
- ☐ Do you have a pre-year end tax planning meeting with your accountant?
- ☐ Do you know how to operate PAYE procedures?
- ☐ Do you have an appropriate bookkeeping system in place?
- ☐ Do your accounting records assist you in running your business?
- ☐ Have all your staff, if any, been issued with contracts of employment?
- ☐ Have you in place all the appropriate compulsory insurance policies?
- ☐ Have you considered the Health and Safety implications of your business?
- ☐ Do you know your bank manager and what financial information he might reasonably expect from you?
- ☐ Are you ready for auto-enrolment?

11. Useful names, addresses and telephone numbers

HMRC:	Tel:
Self assessment helpline	0300 200 3310
Self assessment order line	0300 200 3610
New employer helpline	0300 200 3211
Construction Industry Scheme (CIS) helpline	0300 200 3210
Newly self-employed helpline	0300 200 3504
Tax credit helpline	0345 300 3900
VAT helpline	0300 200 3700
National insurance self-employed helpline	0300 200 3500
Miscellaneous:	
Companies House	0303 123 4500

Websites:	
HMRC	www.hmrc.gov.uk
HMRC news	www.hmrc.gov.uk/news
NIC information	www.hmrc.gov.uk/ni/index.htm
Parliament	www.parliament.the-stationery-office.co.uk
BBC news	www.bbc.co.uk/news
Chartered Institute of Management Accountants	www.cimaglobal.com
Institute of Chartered Accountants in England and Wales	www.icaew.com
Association of Chartered Certified Accountants	www.accaglobal.com
BT Phone Net UK (UK online directory)	www.thephonebook.bt.com
Royal Mail (for postcodes)	www.royalmail.com
UK Street Map	www.streetmap.co.uk
Gov.UK (government services and information)	www.gov.uk

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Your notes