

New Business Start-Up Guide

A Guide to the Accounting, Tax and Financial Implications of Setting up in Business

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The New Business Start-Up Guide

This publication has been prepared to help individuals seeking to start up their own business. Starting up in business is an exciting and daunting prospect for many. However you have come to the decision to start up in business, taking good advice and understanding the different options available to you can make the difference between success and failure. We have prepared this guide to introduce you to many of the accounting, tax and financial aspects of starting a business. As a new start-up in the past, we can empathise with many of the issues you face in starting in business. If you would like further advice to assist you in this process then please get in touch for a free initial consultation to discuss your circumstances and requirements. We wish you every success with your new business and hope that you realise your business and personal ambitions as a result.

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Starting Up In Business

It is the ambition of many people to run their own business. Some may have been made redundant and find themselves with free time and financial resources. Others make the decision to start up in business to be more independent and obtain the full financial reward for their efforts.

Whatever the reason, a number of dangers exist. Probably the greatest concern is the possibility of business failure.

Read on for guidance on some of the factors which need to be considered before trading begins.

This factsheet cannot cater for every possibility and any decisions should be supported by professional advice.

Initial considerations

In order to make your business a success there are a number of key factors which should be considered:

- Commitment - starting a business is demanding. Determination and enthusiasm are essential
- Skills - you will need managerial, financial, technical and marketing skills. If you do not have these skills personally, they can be found in a partner or employee, or acquired through training
- Your product or service should have a proven or tested market, but must not conflict with the patent or rights of an existing business.

In addition to these general considerations there are a number of more specific matters.

The business plan

The business plan is the key to success. If you need finance, no bank manager will lend money without a sensible plan.

Your plan should provide a thorough examination of the way in which the business will commence and develop. It should describe the business, product or service, market, mode of operation, capital requirements and projected financial results.

Business structure

There are three common types of business structure:

- Sole trader

This 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.

- Partnership

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. A further possibility is to use what is known as a Limited Liability Partnership (LLP).

- Company

The business affairs are separate from the personal affairs of the owners, but there are legal regulations to comply with.

The appropriate structure will depend on a number of factors, including consideration of taxation implications, the legal entity, ownership and liability.

Business stationery

There are minimum requirements for the contents of business stationery, both paper and electronic, which will depend on the type of business structure.

Books and records

All businesses need to keep records. They can be maintained by hand or may be computerised but should contain details of payments, receipts, credit purchases and sales, assets and liabilities. If you are considering purchasing computer software to maintain your records, obtain professional advice.

Accounts

The books and records are used to produce the accounts and if the records are well kept it will be easier to put together the accounts. Accounts must be prepared for HMRC and if a company is formed there are strict legal requirements as to their layout. The accounts and company tax return must now be submitted electronically to HMRC in a specific format.

A company and a LLP may need to have an audit and will need to make the accounts publicly available by filing them at Companies House within a strict time limit.

Taxation

When starting in business, taxation aspects must be considered.

- Taxation on profits

The type and rate of taxation will depend on the form of business structure. However, the taxable profit will normally differ from the profit shown in the accounts due to certain expenses which are not allowed for tax purposes and the timing of some tax allowances. Payment of corporation tax must be made online.

- National insurance (NI)

The rates of NI contributions are generally lower for a sole trader or partnership than for a director of a company but the entitlements can also differ. In a company, it may be possible to avoid NI by paying dividends rather than salary.

- Value added tax (VAT)

Correctly accounting for VAT is an essential part of any business and neglect may result in a significant loss.

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.

Employing others

For the business to get off the ground or to enable expansion, it may be necessary to employ staff.

It is the employer's responsibility to deduct income tax and national insurance and to account for student loan deductions. The balance must then be paid over to HMRC. Payroll records should be carefully maintained. You will also need to be familiar with employment law.

Premises

There are many pitfalls to be avoided in choosing a property.

Consideration should be given to the following:

- suitability for the purpose
- compliance with legal regulations
- local by-laws
- physical restrictions such as access.

Insurance

Comprehensive insurance for business motor vehicles and employer's liability insurance are a legal requirement. Other types of insurance such as public liability, consequential loss, business assets, Key man and bad debts should be considered.

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 some generalisation can be made about starting up a business, it is always necessary to tailor the strategy to fit your situation. Any plan must take account of your circumstances and aspirations.

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 formulating a strategy suitable for your own requirements. We can also provide key services such as bookkeeping, management accounts, VAT return and payroll preparation at an early stage.

Could I Really Make a Go of it?

Many people wonder deep down if they could really make a go of running their own business. It is not for everyone but the following is a list of attributes that successful business owners have. You do not need all of these characteristics but 'go-getters' have the majority of the qualities.

Qualities needed for success

To help you decide whether or not you are cut out for the enterprise culture, do you see in yourself any of the following? Are you:

- Positive - decisive and enthusiastic to succeed?
- Proactive - do you go out to get things or do you let them come to you?
- Determined - have you clearly-defined personal and business goals?
- Hardworking - do you mind being tied to the business seven days a week?
- Leadership - are you able to get the best from your colleagues and discipline them when necessary?
- Opportunist - will you see openings in your market and develop products for it?
- Self-critical - are you able to review your own performance and welcome advice from others?
- Flexible - could you change your products or methods quickly when necessary?

Erratic spending power

You must appreciate that in becoming self-employed you will lose the comfort of having a regular income. There will be times when you will have very positive cash flow but also times when money is short. Therefore during times of shortage you must be prepared to do without some luxuries for yourself, your family and your business.

Making sure the family is with you

Starting a business is not easy and your family must both be on your side and also lend you support. Initially, especially in the early days, you could often find yourself away from your family for long, unsocial hours. Their understanding can be invaluable.

It can help to get your family involved in aspects of the business. There may be many jobs that can be easily delegated to them. It may also help on the financial side that they understand why there may be a tight control of the family finances.

Identifying your skills

You may be considering self-employment to exploit your talents. Running a business needs many skills. You should identify those things you are good at and those with which you will need help. You may wish to employ people with the necessary skills or, alternatively, consider contracting out certain tasks.

Researching Your Market

You must research as much as possible about the marketplace, your potential customers and competitors. It is vital to have knowledge of these areas when considering whether you have a potentially successful business proposition. You may wish to use published material or ask people who are likely to buy from you, either directly or by market survey.

You will need to find out about:

- Your target market - its size and whether it is expanding or contracting.
- Your customers - who are they? Where are they? What do they want? How much will they pay?
- Your competitors - what are their products, prices and market share?

How we can help

You will need to consider all the above very seriously, involve your family and make a trial business plan. We can help you to plan and answer any questions you may have.

Business Structures – Which Should I Use?

Having made the decision to be your own boss, it is important to decide the best legal and taxation structure for your enterprise. The most suitable structure for you will depend on your personal situation and your future plans. The decision you make will have repercussions on the way you are taxed, your exposure to creditors and other matters.

The possible options you have are as follows.

Sole trader

This is the simplest way of trading. There are only a few formalities to trading this way, the most important of which is informing HMRC. You are required to keep business records in order to calculate profits each year and they will form the basis of how you pay your tax and national insurance. Any profits generated in this medium are automatically yours. The business of a sole trader is not distinguished from the proprietor's personal affairs so that if there are any debts, you are legally liable to pay those debts down to your last worldly possession.

Partnership

A partnership is an extension of being a sole trader. Here, a group of two or more people will come together, pool their talents, clients and business contacts so that, collectively, they can build a more successful business than they would individually. The partners will agree to share the joint profits in pre-determined percentages. It is advisable to draw up a Partnership Agreement which sets the rules of how the partners will work together. Partners are taxed in the same way as sole traders, but only on their own share of the partnership profits. As with sole traders, the partners are legally liable to pay the debts of the business. Each partner is 'jointly and severally' liable for the partnership debts, so that if certain partners are unable to pay their share of the partnership debts then those debts can fall on the other partners.

Limited company

A limited company is a separate legal entity from its owners. It can trade, own assets and incur liabilities in its own right. Your ownership of the company is recognised by owning shares in that company.

If you also work for the company, you are both the owner (shareholder) and an employee of that company. When a company generates profits, they are the company's property. Should you wish to extract money from the company, you must either pay a dividend to the shareholders, or a salary as an employee. The advantage to you is that you can have a balance of these two to minimise your

overall tax and national insurance liability. Companies themselves pay corporation tax on their profits after paying your salary but before your dividend distribution. Effective tax planning requires profits, salary and dividends to be considered together.

There are many advantages as well as disadvantages to operating through a limited company. We have a separate factsheet on 'Incorporation' which considers the relative merits as well as the downsides of operating as a company.

New companies can be purchased relatively cheaply in a readymade form - usually referred to as 'off the shelf' companies. There are additional administrative factors in running a company, such as statutory accounts preparation, company secretarial obligations and PAYE (Pay as You Earn) procedures. A big advantage of owning a limited company is that your personal liability is limited to the nominal share capital you have invested.

Limited liability partnership

A limited liability partnership is legally similar to a company. It is administered like a company in all aspects except its taxation. In this, it is treated like a partnership. Therefore you have the limited liability, administrative and statutory obligations of a company but not the taxation and national insurance flexibility. They are particularly suitable for medium and large-sized partnerships.

Co-operative

A co-operative is a mutual organisation owned by its employees. One example of such an organisation is the John Lewis Partnership. These structures need specialist advice.

How we can help

We will be happy to discuss your plans and the most appropriate business structure with you. The most appropriate structure will depend on a number of factors including consideration of taxation implications, the legal entity, ownership and liability.

Accounting & Bookkeeping

As an owner of a business you must remember that your company's books and financial statements tell you how you are progressing, as well as being an early warning system which lets you know when and why the business may be going amiss. Financial statements and the underlying records will provide the basis for many decisions made by outsiders such as banks, landlords, potential investors, and trade creditors as well as taxing authorities and other governing bodies. The necessity for good, well-organised financial records cannot be over-emphasised.

One of the greatest mistakes made by owners of small businesses is not keeping good financial records and making improper or poor business decisions based on inadequate information. Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. Far too often owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them.

An accounting or book-keeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run or supervise.

Key Terminology

Chart of Accounts

The basic road map into any accounting system is the chart of accounts – it sets out the types of income, expenses, assets and liabilities that you will categorise in your business (for example, rent costs may be one account within your 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 changes.

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 which a well organised accounting system may save you can be significant as the need to generate information for various purposes increases. Many of the more popular accounting software packages contain a chart of accounts that is suitable for most small businesses.

Cash or Accrual Accounting

One of the decisions to be made as you start a business is whether to keep your records on a cash or accrual basis of accounting. The cash basis of accounting has the advantage of simplicity and almost everyone understands it. Under the cash basis of accounting you record sales when you receive the money and account for expenses when you pay the bills. The increase in the money at the end of the month is how much you have made.

Unfortunately, as we all know, the business world is not always so easy. Sales are made to customers and you sometimes must extend credit. Your business will incur liabilities which are due even though you may not have received the invoice or have the cash available to pay them. Recording these transactions even when the cash has not been paid or received is the accrual-basis. Most users of financial statements such as bankers and investors are used to accrual-basis statements and expect to see them. Once you become familiar with them, they provide a much better measuring device for your business operations than cash-basis statements.

Whether you use the cash or accrual basis, it is possible to keep books for income tax purposes on a different basis than for financial statements. It may be more advantageous in tax terms for you to do so.

Bookkeeping

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 the receptionist or a secretary double as a part-time bookkeeper, will you have a bookkeeper that comes in periodically, will the volume of activity be such that a full-time bookkeeper will be required or should I outsource?

Very often the owners of a business decide to keep the books themselves and underestimate the commitment they have made to other phases of the operation and the time required to maintain a good set of financial records and books of account. As a consequence, the record keeping is often low priority and must be caught up later. This approach, though rarely planned, can require a substantial expenditure of time and money.

While it is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise, this can be achieved by maintaining close control over the bank authorisation and scrutinising certain records. Your company accountant can help develop a good programme of record-keeping duties for you, your employees and any outside book-keepers or accountants you may engage.

Outsourced Accounting

Outsourcing can be defined as the contracting out of a business function (commonly one previously performed in-house) to an external provider.

Outsourcing the accounting function can be either done on a part or fully outsourced basis and can offer a cost effective solution for your accounting requirements. The range of services span from support on a day to day basis such as bookkeeping, credit control, VAT compliance, payroll & benefits processing and management accounts to more strategic assistance such as cash flow analysis, budgets and modelling.

Internal Controls

What is an internal control? It is the system of checks and balances within a business enterprise that helps to ensure that the company 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 band” or at least handling all of the company 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 and the debt is recorded or the cash 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 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 as well as employee fidelity bonds or controlled access storerooms.

How we can help

We are able to support you in understanding the accounting and bookkeeping aspects of your business and can provide monthly, quarterly or ad hoc outsourced accounting assistance as required.

Value Added Tax (VAT)

VAT is a tax on consumer expenditure and is ultimately paid by the final customer. 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 exempted or zero-rated. VAT is collected by HM Revenue & Customs and is normally payable quarterly.

Registration

There are two different types of registration - compulsory and voluntary.

Compulsory

A person who makes taxable supplies becomes liable to be registered if

1. At the end of any month, the value of his taxable supplies in the period of one year then ending has exceeded the registration limit.
2. At any time, there are reasonable grounds for believing that the value of his taxable supplies in the next 30 days will exceed the registration limit
3. If, where a business carried on by a taxable person is transferred as a going concern, the taxable supplies for the twelve months prior to the transfer exceed the registration limit

In the most common situation, being (1) above, the person must notify HM Revenue & Customs of the liability within 30 days of the end of the month in which the value of the taxable supplies first exceeded the registration limit.

Voluntary

In certain circumstances, it is possible to register on a voluntary basis for VAT even though the value of taxable supplies may never exceed the registration limit. This is normally only beneficial where the majority of supplies are being made to customers who are themselves VAT registered. The other situation in which a voluntary registration might be beneficial is where the supplies are all zero-rated and no VAT is charged on the transaction. All VAT suffered by the trader on expenses can be reclaimed from HM Revenue & Customs.

In summary, the advantages and disadvantages of a voluntary registration are as follows:

Advantages

- enables input VAT suffered to be reclaimed
- a VAT number can give the impression that a business is larger than it actually is which sometimes can increase the possibility of obtaining work.

Disadvantages

- the requirement to prepare VAT returns on a quarterly basis and to submit them within one month of the quarter end - is the amount of work involved worth it for the amount of input VAT that can be reclaimed?
- HM Revenue & Customs may visit the business about every five years to ensure that VAT is being properly accounted for.

Taxable Supplies

Taxable supplies are all supplies made by a business either to a third party or to the trader himself (goods for own use), which are not exempt supplies. Taxable supplies therefore include zero-rated supplies. The major categories of exempt supplies are:

- Land (but not buildings)
- Insurance
- Postal services
- Betting, gaming and lotteries
- Finance
- Education
- Health and welfare

It is important that at the outset of a business, a trader establishes the VAT status of any supplies being made to avoid mistakes, e.g. the services of a physiotherapist are exempt, whilst the services of an acupuncturist are standard rated.

Tax Rates

There are three rates of VAT:

- Standard rated for most goods and services (20% at time of going to press)
- Reduced rated for certain supplies of fuel and power and sanitary goods (5% at time of going to press)
- Zero rated

The four main areas of zero-rated goods are:

- Food and agriculture (but excluding pet food and most catering);
- Printed matter, including books and newspaper;
- Young children's clothing and footwear;
- Passenger transport (but excluding hire cars, taxis and parking).

Any VAT charged by the business, whether at standard or reduced rate is known as output VAT and the total charged or collected in the VAT quarter is payable to HM Revenue & Customs.

Input VAT

Input VAT is the VAT that you are charged on your business purchases and expenses (the other persons 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 HM Revenue & Customs or the amount repayable by HM Revenue & Customs.

The majority of input VAT is recoverable but there are special rules for:

- cars
- petrol supplied for private usage
- 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 was originally described as a simple tax but has

gradually become more and more complicated over the last twenty years with changes to the operation of VAT every year. It is not always possible to calculate each quarter's VAT liability by merely deducting input VAT incurred from 1/6 (for VAT rate of 20%) of the sales income and professional advice needs to be taken in the following situations:

- Importing and Exporting - either within or outside the European Union
- Partial Exemption, where a business makes some exempt supplies, all the input VAT incurred is not necessarily recoverable
- Retail Schemes, where both zero rated and standard rated supplies are made which cannot be separately identified at the point of sale
- Land and Property
- Cash Accounting
- Self-supplies
- Second-hand schemes for motor cars, used boats, antiques, horses and ponies and others

Penalties

The two most important penalties still in existence which every business should be aware of are

1. Late registration penalty for not registering for VAT at the correct time. The penalty is based on a percentage of the VAT due between the date of registration and the date that the person was required to be registered and the percentage increases dependent upon the lateness of the registration. The penalty is in addition to the VAT that is due.
2. Default surcharge for traders that are persistently late in either submitting VAT returns and/or making payment of the liability due. The penalty is based on a percentage of the VAT due and is on a sliding scale.

How we can help

We would be happy to give advice on VAT registration, the processing of VAT returns and payments to HM Revenue & Customs. In addition we can provide the specialist support required for overseas trading, partial exemption, cash accounting and other areas of VAT.

Payroll Taxes

Irrespective of the form of business in which you operate, if you are going to have employees then you will have to contend with payroll taxes. The brief summary that follows will give you some guidance in the rules and regulations of HM Revenue & Customs.

Helpful Publications

HM Revenue & Customs publish various booklets relating to how PAYE is operated and the legislation that you have to comply with. Not only do you collect and remit PAYE to the Collector of Taxes on behalf of HM Revenue & Customs, you also operate the sick pay scheme and maternity pay scheme. You should run the PAYE scheme in accordance with the legislation and should you fail to comply then the Revenue will look to you for the tax or NIC you failed to deduct. This can be costly if you are unable to recover the tax and NIC from the employee.

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 or 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 HM Revenue & Customs has placed emphasis on reclassifying individuals claiming to be self-employed and information can be found on the HMRC website. If you have treated someone as self-employed and subsequently after a routine visit from the HM Revenue & Customs it is clear that they were employees, then the tax and NIC which should have been paid will be assessed on you. Therefore it is important to ensure when using the services of self-employed people, that they are in fact self-employed.

The Operation of a PAYE Scheme

Upon registration, HM Revenue & Customs will send to you guidelines on operating PAYE, National Insurance, Statutory Sick Pay and Statutory Maternity Pay. Included will be a number of forms with which to operate the PAYE and NIC system. You should familiarise yourself with and have supplies of these forms (as necessary), which are as follows:

- P11 Deduction working sheet
- P45 Details of employee leaving

Income Tax and Corporation Tax

- P46 Notification to HM Revenue & Customs where no code has been notified to the employer and application for coding
- P46(Car) Notification of a car provided for the private use of an employee or a director
- P14/P60 End of year return and employers certificate
- P35 Employer’s annual statement
- P38A Employer’s supplementary return
- P11D Expenses and benefits
- P9D Expenses payments and income from which tax cannot be deducted.

In order to calculate the amount of tax and national insurance due by an employee, HM Revenue & Customs will supply you with sets of tables in order that you can make the calculations manually or a CD to load onto a computer and process through their software. Alternatively you can purchase third party software or appoint a payroll or outsourcing company to process on your behalf. The tax and national insurance should be paid to HM Revenue & Customs by the 19th of the month following that in which the salaries were paid.

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. Class 1A national insurance contributions 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, HM Revenue & Customs requires on an annual basis, a form P11D (Return of expenses payments and benefits) for all directors irrespective of income and all employees receiving remuneration including the benefit in excess of £8,500. For those employees earning less than £8,500 but who receive expense payments and benefits, a form P9D is required.

A form P46 (Car) needs to be completed quarterly on 5 July, 5 October, 5 January and 5 April if any employees have been provided with or have changed their company car. Further details are given on the taxation of company cars in Inland Revenue leaflets IR132 and IR133. HM Revenue & Customs will still require form P11D to be submitted annually in addition to the P46 (Car) forms.

How we can help

We can support your business in all aspects of payroll including the management of PAYE and National Insurance. In addition we can advise on remuneration planning and cash extraction.

The taxation legislation relating to income tax and corporation tax is extensive and can be confusing for an individual starting a business. As such this section does not cover all the tax ramifications of a new business, nor does it detail all the expenses you can claim for, nor does it give details of allowances available on the purchase of some capital allowances. An accountant should be consulted when you are dealing with the taxation affairs of the business. The payment of taxation has a direct impact on your cash flow.

Choice of Year End

If you expect profits to rise steadily year by year, in the case of sole traders/partnerships, an accounting date early in the tax year, for instance 30 April, might be best in the short term, because this will defer the payment of tax on your profit.

However, it is important to consider what will happen when you retire. Any accounting date other than 31 March will cause a bunching of your tax liabilities because all your profit that has not been assessed prior to your retirement will be assessed for your final year. There are a number of ways to mitigate the effect of this. You could plan to retire on or shortly after the accounting date, and allow “overlap relief” to reduce the burden. You could build up a reserve to meet the liability, or use the higher profit to permit an abnormally large pension contribution.

On the other hand if you expect to make losses in your early years, an accounting date late in the tax year, for instance, 31 March, will ensure that you get tax relief for those losses as quickly as possible. You would then not be faced with the bunching problem on retirement referred to above.

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. In these circumstances it might be preferable to run your first accounts to a date just short of your peak 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 conflict with tax planning. A solution would be to choose a tax efficient tax accounting date, and keep the bank happy with quarterly management accounts.

Tax Returns - Companies

Companies are charged corporation tax at the rate applicable during the financial year (1 April - 31 March). Where a company's accounts period spans two financial years the profits for the period are

apportioned between the years. The rate of corporation tax applicable depends on the size of profits generated.

A company is required to make an estimate of its own liability to corporation tax and pay that liability by the normal due date, nine months after the end of the accounting period (special rules apply if profits and hence corporation tax payable exceed a certain threshold). The company is required to send its completed tax return (form CT600), accounts and tax computation to the Inspector by the filing date, which is 12 months after the end of its accounting period. Penalties will be charged if it is late. Once the company agrees its liability with the Inspector, there will be a settlement of any balance due or overpaid. Interest will be charged or paid from the normal due date on the balance.

Tax Returns - Sole Traders and Partnerships

Sole traders and partnerships are charged income tax at the rate applicable during the fiscal years (6 April - 5 April). There may also be a liability to Class 2 and Class 4 National Insurance Contributions, depending on the level of profit in each fiscal year. For the self-employed and those that pay tax on other income such as rents, tax is normally payable in three instalments - the first two instalments are based on the tax paid on the previous year's business tax liability. Therefore half is paid by the 31 January in the year of assessment, the other half by the 31 July in the year following the year of assessment. The third instalment will be any balance due (payable the following 31 January) or any amount repayable by HM Revenue & Customs if your final liability is lower than that paid on account.

Under self-assessment your income tax return, which encompasses your trading results, needs to be filed online by 31 January following the tax assessment year. This date is moved forward to the end of October if you are sending a paper copy.

How we can help

For specialist advice on income tax and corporation tax in relation to your business and personal affairs, we have an experienced team on hand every step of the way.

Cash Planning & Forecasting

The lifeblood of any business is its ability to collect cash and pay bills as well as pay its employees, particularly its owners. Far too often small businesses are profitable, but they do not have enough operating capital to meet their current needs. This could end up putting the company out of business.

The ability to forecast cash resources and uses is an art and is by no means a well-defined science. None of us have a crystal ball and any cash forecast which is prepared by the management of a company or an outside consultant can be no more than a guess as to when the customers pay and when your business will pay its obligations. Hopefully, the more effort that is put into cash forecasting the better will be the educated guess and the more accurate the resultant picture of the future operations of your business.

Revenue Analysis

One of the most significant factors to be considered in your cash flow forecast is the volume of sales that will be generated in the next several months and for the rest of the period for which you intend to forecast. Your sales forecast must be as fine tuned as possible. It may be unrealistic to assume that there is a million pound market for your product in your area and you will be able to capture a specified percentage of it. A sales forecast needs to be based on specific facts. These might include your sales history or the history of similar businesses you have owned or operated or the competition. In your area, what has been the experience of similar operations?

Some of the questions that should be addressed would include what other factors could I control such as adding new product lines, deleting unprofitable operations, adding a new salesperson, or terminating one that is not producing to quota? In preparing a forecast, you must also take into consideration items such as the seasonality of your business, the relative state of the economy and the period over which you will forecast. Obviously your ability to forecast sales for the next month is better than it is for three to five years from now. The amount of detail that must be included in the cash forecast is really a matter of preference. It can be based on per unit sales extended out by the sales price of each type of unit or an average sales volume per day, week or month of your type of business in its current environment.

Getting Paid

Once you have determined a reasonable level of sales and you are comfortable with the forecast you have made, you must address questions such as:

- What percentage of my revenue is received in cash and what portion are credit sales for which I will have to carry amounts in debtors?
- For those that are debtors based, how soon is the cash collected?
- Do I have to wait for customers to pay me or do third parties such as Visa or MasterCard or a debt factor take the customer's account and convert it to cash for me with an appropriate discount?

If you are relying on customer payments for collection of debtor balances you must determine what portion of the debts will be collected in thirty days, sixty days, ninety days and thereafter, and what portion, if any, may never be collected.

Other sources of cash may be available in addition to sales revenue such as investment in the business or a bank or other loan and it is important to consider when this cash and how much will you get.

Part of your cash flow analysis may be to determine how much investment money or borrowings will be required to operate your business. Once you are comfortable with the cash receipt side of your business, and the timing of the collections of funds from your sales and other sources, it is necessary to consider the expenses and other cash needs of your business operation.

Payments

Certainly if your business entails sales of stock, you will have to purchase the merchandise from others or purchase the component parts and pay employees to assemble it. This may require a significant outlay of cash before the first pound of sales is generated and received. You should consider how often and in what amount your employees must be paid and when their payroll taxes must be paid over.

Additionally, you need to know the credit trade terms your creditors are willing to advance to you. Do you have to pay for stock items on a proforma or C.O.D. basis or can you pay for them thirty or forty-five days after receipt? What expenses must be paid to allow you to convert purchased merchandise to saleable stock? If your production requires utilities to run machines or supplies that are required, such as consumable chemicals or packing materials that must be purchased prior to the sale of the stock, you should consider the timing of these payments.

In addition to the cost of manufacturing, you should consider whether your productive capacity would allow you to generate enough stock to support the level of sales that you are predicting. If the volume of sales you forecast is above your ability to produce today, what changes in your operating environment must be made to meet the production levels. Will you need additional employees and, if so, how much will they cost? Do you have to acquire additional machinery for your shop operations? What is the cost of the machinery and when will you have to pay for it? Do you have enough space to cope with the additional activity? Once you have determined the cost of operating your production or service facilities, you need to consider what other expenses you must pay to keep the doors of your business open. You typically will have to pay rent for your office or manufacturing facility. You must consider how much the monthly payment is and when it has to be paid. Ask yourself if there will be other cash requirements such as a deposit on first and last month's rent. If you are opening a new business, you must consider what your cash requirements are to make your facility ready for your specific needs and purposes. Will you have to buy or rent furniture? Will you need to make tenant improvements or pay deposits for utilities and other services?

You also need to consider many of the overhead items and costs to open a new business that will hopefully be one-time expenses. This may be a solicitor's fee for drafting partnership agreements or incorporating your business, the cost to obtain business licences, approval from the taxing authorities, setting up an accounting system, stationery costs, and costs of signs or logos. It may seem like the list of costs and expenses to be incurred is endless. It may even discourage you in moving forward with your business endeavour. However, it is imperative to make the list as detailed as possible to ensure that you have sufficient funds to make your operation ready for business prior to running out of cash. The more detailed the list and the more sufficient information you can provide, the less chance there is of unpleasant surprises as you move down the stream to opening your business. In addition to determining the amount and volume of expenses and cash outlays you will have to make, it is critical to determine the timing of such payments. As we have discussed in other sections, there may be a variety of financing alternatives that are available to you. Most of the start-up cost which you incur can be delayed or deferred until you can generate the cash from your operation to help pay them. This needs to be carefully analysed and built in to your cash flow analysis. However, a good rule of thumb is to assume that you are going to have to pay your expenses sooner than you think and that you will collect your cash slower than you anticipate. If you work with this attitude, any surprises should be favourable ones.

The more effort you put into developing the cash flow projections the more accurate they will tend to be. This exercise may also help you to pinpoint areas of potential cash savings that you have not otherwise considered. A trained professional can offer guidance and ask pointed questions to be sure you are considering all of the necessary and sometimes hidden costs of operating a business.

The following tax matters require consideration as part of the preparation of your cash flow forecast:

- VAT on sales / purchases and the payment or receipt of the net amount to / from HM Revenue & Customs
- Payment of payroll taxes
- Payment of taxes on your business profits

An accountant is well placed to assist you in calculating how tax amounts might be estimated for your cash flow forecast. Many businesses go bust because they fail to provide for the taxes that are payable. Make sure that it does not happen to you!

How we can help

Cash is King! Without cash your business it is unlikely to succeed despite it being profitable.

Although cash flow analysis is not a completely accurate science, our professional advice can help you to plan your cash and financing requirements so as to avoid some of the problems which befall new businesses.

We would welcome the opportunity to assist you in formulating a cash analysis suitable for your own requirements.

Business Plans

Every new business should have a business plan. It is the key to success. If you need finance, no bank manager will lend money without a considered plan.

It is one of the most important aspects of starting a new business. Your plan should provide a thorough examination of the way in which the business will commence and develop. It should describe the business, product or service, market, mode of operation, capital requirements and projected financial results.

Why does a business need a plan?

Preparing a business plan will help you to set clear objectives for your business and clarify your thinking. It will also help to set targets for future performance and monitor finances and profitability. It should help to provide early warning for when you might need to reconsider the plan.

Always bear in mind that anyone reading the plan will need to understand the essentials of your business quickly and easily.

Contents

The business plan should cover the following areas.

- **Overview** - An overview of your plans for the business and how you propose to put them into action. This is the section most likely to be read by people unfamiliar with your business so try to avoid technical jargon.
- **Description** - A description of the business, your objectives for it and how you plan to achieve them. Include details of the background to your business for example how long you have been developing the business idea and the work you have carried out to date.
- **Personnel** - Details of the key personnel including you and any external consultants. You should highlight the skills and expertise that these people have and outline how you intend to deal with any weaknesses.
- **Product** - Details of your product or service and your Unique Selling Point. This is exactly what its name suggests, something that the competition does not offer. You should also outline your pricing policy.

- **Marketing** - Details of your target markets and your marketing plan. This may form the basis for a separate, more detailed, plan. You should also include an overview of your competitors and your likely market share together with details of the potential for growth. This is usually a very important part of the plan as it gives a good indication of the likely chance of success.
- **Practices** - You will need to include information on your proposed operating practices and production methods as well as premises and equipment requirements.
- **Financial forecasts** - The plan should cover your projected financial performance and the assumptions made in your projections. This part of the plan converts what you have already said about the business into numbers. It will include a cash flow forecast which shows how much money you expect to flow in and out of the business as well as profit and loss predictions and a balance sheet. Detailed financial forecasts will normally be included as an appendix to the plan. As financial advisers we are particularly well placed to help with this part of the plan.
- **Financial requirements** - The cash flow forecast referred to above will show how much finance your business needs. The plan should state how much finance you want and in what form. You should also say what the finance will be used for and show that you will have the resources to make the necessary repayments. You may also give details of any security you can offer.

The future

Putting together a business plan is often seen as a one-off exercise undertaken when a new business is starting up. However the plan should be updated on a regular basis. It can then be used as a tool against which performance can be monitored and measured as part of the corporate planning process. There is much merit in this as used properly it keeps the business focused on objectives and inspires a discipline to achieve them.

How we can help

We can assist you in formulating a business plan and obtaining any necessary finance.

Raising Finance

Who needs finance?

Every business from its commencement and through its development and growth will need finance.

But what type of finance is best suited to the development of your business, and who should you approach for funding?

We provide guidance below on types of finance available and outline the planning required before approaching any lending institution.

Planning for growth

Is finance required?

Finance is very often necessary but consider what it will entail. Additional funding requires a commitment in terms of capital and interest payments. Embarking on this course of action must therefore be planned carefully.

The business must be capable of sustaining any additional commitment to growth or expansion, and consideration will need to be given to effects on manpower, materials and space.

Tapping existing resources

Before seeking outside finance, a business must consider whether it could improve its working capital from within.

Particular attention should be given to stock and debtors to ensure that both are kept to a minimum. Consider how long it takes to bill customers and collect debts and look at ways to reduce this time.

If there are periods of time when surpluses of cash arise, review your affairs to try and ensure these are being used to generate income by investing on temporary short term deposit.

Business plan

Assuming external funding is necessary, planning is essential in achieving success. A well-drawn up business plan not only crystallises in your own mind the nature of the project and the timing of any

required funding, but is vital to any lending institution. They are unlikely to provide any assistance without a properly drawn up business plan.

The plan will include details of:

- the objectives and aims of the business
- the purpose of the required funding
- the business ownership and history
- management and responsibilities
- products and market share
- sales plan and strategy
- the financial position of the business with detailed cash flow forecasts and past accounts

Types of finance

General

Finance is available in many forms, but it is important to make sure that it is right for your business. Onerous terms and inflexibility can often hinder a growing business.

The more obvious sources of finance include bank overdrafts and medium to long term loans and mortgages, but rates of interest can vary considerably. Therefore we advise you to consult with us before making your final decision.

Specific

Specific methods of finance are available for acquiring assets or releasing cash from debtors. Carefully consider the options available which include:

- leasing assets
- hire purchase

- outright purchase
- debt factoring
- invoice discounting

Each method of funding has advantages and disadvantages including implications for tax purposes.

Other

Other means of finance may be available for your business from government sources, through the issue of shares or even your own pension scheme.

Government assistance can be in the form of grants, loan guarantees or an enterprise capital funds. Other grants may be available on a regional or local level.

Raising finance by issuing shares may be another option to consider.

Security

Whatever form of finance is offered, the lender will always require some form of security. However the level of security sought may vary – beware the lender asking for unreasonable guarantees.

Fixed and floating charges

Most bank loans and overdrafts are secured by way of a fixed charge over land and buildings with floating charges over other assets of the company such as stock and debtors.

Personal guarantees

For some businesses little security may be available because of insufficient assets. Consequently the security will be given in the form of personal guarantees.

Take extreme care before signing these guarantees as they can be difficult to amend at a later stage and many have suffered as a consequence.

In particular, personal guarantees are best if they are limited by time or amount. Unlimited guarantees are the most dangerous.

General

It may be possible to use other assets as collateral such as life insurance policies or by taking a second mortgage over your home.

Whatever the means of security pledged, it should be carefully considered and advice sought.

How we can help

The means by which finance is obtained will vary enormously according to the amounts required, the nature of the business, the risk exposure to the lender and the period for which finance is required.

Accordingly whilst some generalisations apply, individual circumstances require specific consideration. Time invested in formulating a funding strategy, whilst not guaranteeing success, will provide a structure to guide the growing business.

Our experience and contacts can enable you to achieve the means to help your business grow.

Sources of Finance

The financing of your business is the most fundamental aspect of its management. Get the financing right and you will have a healthy business, positive cash flows and ultimately a profitable enterprise. The financing can happen at any stage of a business's development. On commencement of your enterprise you will need finance to start up and, later on, finance to expand.

Finance can be obtained from many different sources. Some are more obvious and well-known than others. The following are just some of the means of finance that are open to you and with which we can help.

Bank loans and overdrafts

The first port of call that most people think about when trying to obtain finance is their own bank. Banks are very active in this market and seek out businesses to whom they can lend money. Of the two methods of giving you finance, the banks, especially in small and start-up situations, invariably prefer to give you an overdraft or extend your limit rather than make a formal loan. Overdrafts are a very flexible form of finance which, with a healthy income in your business, can be paid off more quickly than a formal loan. If, during the period you are financing the overdraft, an investment opportunity arises, then you could look to extend the options on your overdraft facility to finance the project.

Many businesses appreciate the advantages of a fixed term loan. They have the comforting knowledge that the regular payments to be made on the loan make cash flow forecasting and budgeting more certain. They also feel that, with a term loan, the bank is more committed to their business for the whole term of the loan. An overdraft can be called in but, unless you are failing to make payments on your loan, the banks cannot take the finance away from you.

Many smaller loans will not require any security but, if more substantial amounts of money are required, then the bank will certainly ask for some form of security. It is common for business owners to offer their own homes as security although more risk-averse borrowers may prefer not to do this. Anyone offering their house as security should consult with any co-owners so that they are fully aware of the situation and of any possible consequences. Another source of security may be the Enterprise Finance Guarantee Scheme. Start-up business unable to provide any other form of security may be able to get a guarantee for loans up to £1,000,000. Under the scheme, you pay a 2% premium on the outstanding balance of the loan, and in return, the government guarantees to repay the bank (or other lender) up to 75% of the loan if you default.

Savings and friends

When commencing a new business, very often the initial monies invested will come from the individual's personal savings. The tendency of business start-ups to approach relatives and friends to help finance the venture is also a widespread practice. You should make it clear to them that they should only invest amounts they can afford to lose. Show them your business plan and give them time to think it over. If they decide to invest in your business, always put the terms of any agreement in writing.

Issue of shares

Another way of introducing funds to your corporate business is to issue more shares. This is always a welcome addition to business funds and is also helpful in giving additional strength to the company's balance sheet. However, you need to consider where the finance is coming from to subscribe for the new shares. If the original proprietor of the business wishes to subscribe for these shares, then he or she may have to borrow money in a similar way to that discussed above. Typically, however, shareholders in this position are often at the limit of funds that they can borrow. Therefore, it may be necessary to have a third party buy those shares. This may mean a loss of either control or influence on how the business is run. An issue of shares in this situation can be a very difficult decision to make.

Venture capital

Approaching venture capital houses for finance will also mean an issue of new shares. The advantage of going to such institutions is the amount of capital they can introduce into the business. The British Private Equity and Venture Capital Association offers useful free publications (www.bvca.co.uk). Further information can be obtained from the British Business Angels Association (www.bbaa.org.uk). Because of the size of their investment, you can expect them to want a seat on your Board. They will also make available their business expertise which will also help to strengthen your business, although inevitably this will come with an additional pressure for growth and profits.

On a smaller scale, the government has introduced various tax efficient schemes for entrepreneurs to invest in growing businesses. The current schemes available are called the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT). We have separate factsheets providing detail in this area. They are similar schemes but complementary to one another. The former allows an individual to invest directly in your company and the latter allows an individual to invest in a fund which, in

turn, will invest in a portfolio of venture capital investments. The investors will get 20% and 30% income tax relief respectively on any monies invested.

Another useful element of the EIS is that it allows any person with capital gains to defer these gains by investing into a company requiring venture capital. This deferral relief, unlike the income tax relief described above, which is subject to more stringent conditions, is available to controlling shareholders of such growing companies.

If your company requires finance and you have a capital gain, we can advise on how to use the deferral relief effectively.

Retained earnings and drawings

Since ultimately the well-being of a business is connected with the cash flow of that enterprise, if a proprietor would like more liquidity, then it is sometimes necessary to re-examine the amount of money they are withdrawing from the business for their personal needs. In this way, additional funds earned by the business can be retained for future use.

Other finance

Other possible sources of finance are outlined below.

Factoring

Factoring provides you with finance against invoices that your customers have not yet paid. Typically you can receive up to 85% of the value of the invoice immediately and the balance (less costs) when the customer pays.

Hire Purchase (HP)

This is used to finance the purchase of equipment. Your business buys the equipment but payments of capital and interest are spread over an agreed period.

Leasing

This is a method of financing equipment you do not need to own. It is often used for vehicle finance. The equipment is rented rather than owned and the rental payments spread over several years. There can also be the option to fix maintenance costs as part of the agreement (contract hire).

Matching

It makes sense to match the finance you are seeking to the purpose for which it will be used.

Working capital	→	overdraft or factoring
Equipment and vehicles	→	fixed-term loan, HP or leasing
Property	→	long-term mortgage
Development / start up	→	investment finance.

How we can help

We have the expertise and the contacts to help you at all stages of your business development and to help you finance the business along the way. If you have any questions or proposals, we would be happy to discuss them with you.

Insuring Your Business

When starting a new business, you will no doubt recognise the need for insurance. It can provide compensation and peace of mind should things go wrong but can also represent a significant cost.

In this factsheet we consider the different types of insurance you need to consider.

Compulsory insurance

Employers' liability insurance is compulsory to cover your employees. By law you must have at least £5 million of cover although a minimum of £10 million is now provided by most policies. You must display the certificate of insurance in the workplace. If your business is not a limited company, and you are the only employee or you only employ close family members, you do not need compulsory employers' liability insurance. Limited companies with only one employee, where that employee also owns 50% or more of the company's shares, have also been exempt from compulsory employers' liability insurance.

Motor vehicles liability insurance is also compulsory and must cover at least third party, fire and theft.

Optional insurance

Other categories of insurance are optional and a decision as to whether or not you need cover under any given heading will depend on the nature of your business and an assessment of the risks.

Public liability

Although strictly this is not compulsory you will almost certainly feel that you need cover under this heading. It covers claims for damages to third parties.

Property

You can think about limiting cover to specific risks such as fire and flood or providing more general cover. Consider the level of cover you would need for the premises (if you own the building), equipment and stock. If you rent your premises then you should check that the landlord has the appropriate cover.

Theft

If your business does not involve expensive items of equipment then you might to decide to pass on this one at least initially. If you do decide to provide cover for theft then an insurer will require a reasonable minimum level of security.

Professional indemnity

This is only likely to be necessary if you give advice which could make you liable. It protects against any loss suffered by your customers as a result of negligent advice. In some professions it is compulsory – examples being the law, accountancy and financial services. However it is common in other sectors such as computer consultancy and publishing.

Business interruption

This covers compensation for lost profits and extra costs if your business is disrupted due to say a fire. It is also referred to as 'consequential loss' insurance.

Key man

A small business is often dependent on key members of staff. What would happen if they became seriously ill or died? Do you need to consider insurance cover to pay out in such a situation?

Specialised insurance

A whole host of different policies cover a range of specialist situations – for example engineering insurance and computer policies.

Working from home

If you are planning to start your new business from home then don't assume that your normal household insurance will be enough. It will not usually cover business risks. It is possible to obtain special 'working from home' policies.

Shopping around

It may be stating the obvious but it is important to shop around to get the best deal. You should obtain several quotes and always be wary of cheap deals. A personal recommendation may be the best way to decide.

Level of cover

Again it may be stating the obvious but too much cover and your cash flow will suffer, too little and the consequences can be catastrophic.

Consider the level of cover you need. With buildings and equipment make sure you are covered for the full replacement cost.

If there is to be an excess on any policy make sure that it is set at a sensible level.

How we can help

Please talk to us if you would like any further help on insuring your business.

HMRC – www.hmrc.gov.uk/startingup

Information on starting in business from a tax perspective

HMRC Helpline for the Newly Self-Employed: 08459 15 45 15

HMRC Employer's website – www.hmrc.gov.uk/employers

Links to guidance for employers New Employer's Helpline: 0845 607 0143

Construction Industry Scheme – www.hmrc.gov.uk/cis

Information for companies involved in construction

Self-Assessment – www.hmrc.gov.uk/sa

HMRC's guidance on the self-assessment regime

National Insurance – www.hmrc.gov.uk/nic

Guidance on National Insurance contributions

Useful Contacts

VAT – www.hmrc.gov.uk/vat

Links to guidance for the operation of VAT

VAT National Advice Service: 08450 10 90 00

Companies House – www.companieshouse.gov.uk

Information for limited liability businesses

Business Link – www.businesslink.gov.uk

Government-funded agency providing support to business start-ups

Sage – www.sage.co.uk/why-sage/why-sage.html

Information on Sage Accounting Packages

QuickBooks – www.quickbooks.intuit.co.uk

Information on QuickBooks Accounting Packages

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