

YOUR GUIDE TO STARTING A BUSINESS



There are many things to think about when starting a business, from creating a business plan, to raising finance – not to mention a raft of tax rules and other legal obligations. This guide outlines some of the key areas to consider as you embark on your new business venture.

GETTING STARTED

Some key questions

Running a business can be a very rewarding experience, but it is not for the fainthearted. While many people are excited by the idea of being their own boss, you should consider whether you are really suited to running your own business. Owning and managing a new business takes determination, dedication and ambition: prospective entrepreneurs should take into account the long hours, hard work and personal financial risk involved with starting up in business.

The more forethought you can give to the job of running your business, the more likely you are to succeed. Before you begin, you will need to identify your key objectives and expectations, as well as the purpose of your business. For example, what type of business do you wish to set up? What is your target market? What are your strengths and weaknesses? Does your business proposal have a unique selling point (USP)? These are just a handful of the questions to ask yourself before you start. We will be happy to discuss these with you.

- A staff profile, detailing any additional resources you will need to help you to realise your goals
- A financial plan, including sources of funding and cashflow and profit forecasts
- A sales and marketing plan, outlining your target market and how your product or service will approach this market
- An executive summary, which provides potential investors with an 'at a glance' guide to the essential points within your business plan.

A business plan should be honest and realistic. Research your target market thoroughly and avoid over-optimistic forecasts. Do not ignore competitors and potential risks. If you carry out a 'SWOT' analysis, pay as much attention to your **Weaknesses** and **Threats** as you do to your **Strengths** and **Opportunities**.

We can help you to compile a clear and comprehensive business plan.

Raising finance

Those looking to start up in business will most likely need to raise finance from an external source. However, raising these funds requires careful and considered planning: finding a method that suits your business is crucial to its success.

Businesses should consider a range of finance sources in order to afford greater long-term flexibility. These might include the following:

Overdrafts

Overdrafts contain set amounts of money, agreed between you and your bank.

Overdrafts should be used to cover short-term outgoings and unforeseen expenses – they should not be used as a long-term source of finance. Continued use may cause your bank to question your financial status.

Creating an effective business plan

Starting a business offers its fair share of risks and challenges, so it's important to make sure you have in place a solid and realistic business plan to help maximise your chances of success. Your business plan should include the following:

- A 'mission statement', outlining your key business goals – identify your primary business objectives, and outline how you will meet them

TAX CONSIDERATIONS

Choosing the right business structure

Choosing the correct structure to suit your business is crucial. There are advantages and disadvantages for each trading structure and the most suitable structure will depend on your personal situation and your future plans. As well as the tax and national insurance issues, you will need to consider such things as the expected rate of growth of the business, administrative obligations and pensions and retirement.

Some of the possible options can include:

- **Sole trader/sole practitioner** – Setting up in business as a sole trader or practitioner requires thorough consideration. Sole traders are classed as self-employed, and are personally responsible for any losses that a business may make.
- **Partnership/limited liability partnership** – In a partnership, both you and your business partner share responsibility for the business, including any losses or profits it makes, and for expenses. Those seeking to enter into a business partnership may wish to create a written agreement, clearly establishing the terms of the partnership.
- **Limited company** – The finances of a limited company are separate to your personal finances. However, limited companies are subject to more reporting and financial responsibilities.

Please contact us before taking action as we can help you to decide on the most suitable structure for your business.

Loans

Loans are often considered the most conventional source of business finance. Bank loans can be taken out for a fixed term, meaning that interest rates can be agreed in advance. This allows businesses to easily incorporate monthly repayments into their business plan.

Meanwhile, some budding entrepreneurs may be fortunate enough to be able to borrow money from family or friends. However, business owners should always consider drawing up a legally-binding written contract to ensure that every aspect is agreed formally in advance, and to avoid any future disputes.

Loan applications will always show up on your credit file, so, before you apply, it is important to make sure that your business plan is sound and your reason for borrowing is legitimate.

Grants and government support

You may be able to make use of a grant or other type of support. Grants are usually provided by local councils, the government and charities, and can be an inexpensive form of financing. Grants and similar subsidies are typically non-repayable, but tend to be highly sought-after, resulting in fierce competition for this type of funding. However, government grants are usually only offered to businesses operating in specific sectors and for specific projects. You may be required to cover part of the cost of your project, or to match the funds granted to you.

We can help you to weigh up the possible finance options to assist you in making the right decision for you and your business.

Other considerations

Names, trademarks and patents

Choosing your business name is an ideal starting point for building a brand, but be sure to carry out the necessary checks to ascertain whether your chosen name (or a similar name) is already in use. This will help to avoid legal disputes at a later point.

If appropriate, you may want to consider applying for a trademark to safeguard your business in the event that someone tries to pass off your goods and services as their own. Meanwhile, if your business is based around an invention, you may want to protect your new idea by applying for a patent. Visit www.gov.uk/government/organisations/intellectual-property-office for more information.

Premises and location

Finding the right premises is key and your specific requirements will of course depend on the nature of your business. In the early days, many business owners work from a home office. If you need to operate from alternative premises, you should consider whether the premises are suitable for the purpose and comply with legal regulations. Location may also be a key factor, particularly if much of your business relies on passing trade.

Insurance

Comprehensive insurance for business motor vehicles and employers' liability insurance are a basic legal requirement. However, you might also wish to consider other types of insurance such as public liability, consequential loss, business assets, keyman and bad debts.



Registering your business

Upon starting a new business, you must ensure that you inform HMRC of your new self-employed status as soon as possible. If you hire employees, you will need to register for and set up a Pay as You Earn (PAYE) scheme and comply with the Real Time Information (RTI) reporting requirements. You will also need to register for VAT if the value of your taxable sales or services exceeds the registration limit (currently £85,000). In some cases, it may be necessary to register with the relevant trade bodies or professional organisations.

Deciding on your year end

Business owners are able to choose their own year end accounting date. Under the current year basis, a year's taxable profit is determined by the accounts that end in that tax year. The tax year runs from 6 April in one year to 5 April in the next.

There are some basic considerations to take into account when choosing an accounting date. Further down the line, for example when the business stops trading, or if it chooses to change its year end at some point, it will have to make an adjustment for overlap relief. This may be a tax charge or a tax saving. Overlap relief is designed so that over the life of the business, tax is payable on no more or no less than the cumulative profits. There will, however, be some double counting or overlap, unless the accounting date falls between 31 March and 5 April.

The pattern of the business's profits may also affect its year end. If profits do not vary from one year to the next, the accounting date will not significantly affect the assessable profit for each tax year. If your profits are showing a trend and are rising, it may be beneficial to have an



accounting date early in the tax year. Choosing an accounting date late in the year is advisable if profits are falling.

In some cases, certain external factors, such as the nature of the trade, interest rate fluctuations, the effects of rising or falling inflation and tax rate changes may all play a part in helping you to decide when to set your year end.

Bookkeeping and filing tax returns

Ensuring that your receipts, bank statements and other papers are accurately filed in a timely manner is vital.

It is also crucial to complete your self assessment tax returns correctly and on time to avoid incurring penalties. We can help you to make sure that your books are kept up to date, ensuring that the analysis is right and that the accounts balance. We can also eliminate the burden and stress associated with self assessment tax returns: changes to tax legislation mean that taxpayers risk incurring penalties through failing to complete returns on time or correctly. Please contact us to discover how we can help you and your business.

Tax breaks and allowances

Claiming deductible expenses

Business owners are eligible to claim any expenses that relate to their business. Some genuine business expenses are excluded from tax relief.

These include:

- costs associated with business entertaining, including VAT
- donations and subscriptions to charitable causes (excluding small local charities)
- political donations
- fines for breaking the law
- loan capital repayments
- payments for tax and national insurance contributions.

Any capital expenditure is subject to separate capital allowances rules (see later).

Some unincorporated businesses may choose to make use of a cash basis for calculating taxable income. One of the measures permits businesses to opt to use flat rate expenses for certain types of business expenditure. This includes:

- fixed allowances for business mileage
- expenses relating to business use of the home
- an adjustment for the private use of business premises.

Capital allowances

Businesses purchasing plant and machinery are able to utilise the Annual Investment Allowance (AIA), which permits the costs of equipment, machinery and business vehicles (excluding cars) to be deducted from the firm's profits, before tax. The scheme applies to businesses of any size, and most business structures, although provisions are in place to prevent multiple claims.

In the 2018 Autumn Budget, the Chancellor announced an increase in the AIA from £200,000 to £1 million, which applies to expenditure incurred from 1 January 2019 to 31 December 2020. Complex calculations may apply to accounting periods which straddle these dates. It is therefore important to time the purchase of plant and machinery carefully, in order to make the most of the increase.

Plant and machinery includes items such as machines, equipment, furniture, certain fixtures, computers and similar equipment you use in your business. However, certain items do not count as plant and machinery. These include buildings, land and structures, and items that you lease. There is a separate Enhanced Capital Allowances (ECAs) scheme for businesses investing in certain energy saving or 'environmentally friendly' equipment, which provides a 100% first year allowance (in addition to the AIA). There are also special rules for cars, so do contact us if you would like more information.

Expenditure pooling

Where purchases exceed the AIA, a writing down allowance (WDA) is due on any excess in the same period. This WDA is currently set at a rate of 18%. This is the main rate pool and it is available on any expenditure incurred in the current period not covered by the AIA or not eligible for the AIA, as well as on any balance of expenditure remaining from earlier periods. Certain expenditure on building fixtures, known as integral features, is only eligible for an 8% WDA (reducing to 6% from April 2019), so is allocated to a separate 'special rate pool', though integral features do qualify for the AIA.

Structures and Buildings Allowance

The Structures and Buildings Allowance provides relief for expenditure on certain new non-residential structures and buildings. Expenditure incurred on business-related structures and buildings on or after 29 October 2018 will attract a 2% annual WDA, on a straight-line basis for the next 50 years.

Research & Development

Companies liable to corporation tax may be eligible to reduce their bill by claiming Research & Development (R&D) tax relief. Businesses need to be aware of the complexity of the R&D rules. The definition of a 'small and medium-sized enterprise' (SME) for R&D purposes doesn't always correspond to the definition used by HMRC elsewhere. R&D expenditure incurred by businesses is eligible for tax relief at differing rates. SMEs paying corporation tax at 19% effectively get relief at 43.7%. For large company R&D expenditure, a 12% 'above the line' credit exists: this is known as the R&D Expenditure Credit (RDEC) initiative. The RDEC is fully payable, net of tax, to those businesses with no corporation tax liability.

GROWING THE BUSINESS

Planning for growth

Once your new business is making a profit, you should begin to think about the potential for future growth. There are a variety of strategies which may help you to grow. You might want to consider the following.

- **Develop new products or services** – Innovation is vital to ensure continued business development, but before creating a new product or service you should consider the needs of your marketplace. Talking to your existing customers about their requirements will help you to establish where there is demand.

- **Explore new markets** – Could your business benefit from selling its products or services to other markets? While diversification can help your business to survive, be sure not to neglect your core business. Thorough planning and research is essential.
- **Form a strategic alliance** – You might want to consider collaborating with a complementary business that has a similar customer base to your own. Joining forces may increase awareness of your brand amongst customers who might not have heard of you.
- **Expand your offering online** – Could you sell/expand online? While there may be additional initial costs involved, selling online can prove to be very cost-effective in the long-term, enabling you to market and sell your products and services to a much wider audience.
- **Consider a merger or acquisition** – Buying or merging with another business can increase your market share significantly. However, it is a potentially expensive and risky option for small businesses, so proper planning and research is essential. Considering a merger or acquisition is best done at an early stage.

to seek professional help. Directors of trading limited companies are able to pass on shares to family members, helping to gradually transfer the business with no immediate tax liability. However, avoid falling foul of the settlements legislation, and remember that a tax saving for the donor also usually has consequences for the donee.



Taking on employees

As your business grows, you may need to take on employees to manage the day-to-day operations. Before you begin, consider your needs and does your business have the resources to do so? It is advantageous to have a range of tasks that can be done by employees? What are the roles in your job?

Taking on employees. As well as the costs, you can also employ staff on pay Class 1 National Insurance any payments above the threshold. Employment over £3,000 per

Income tax can be deducted under the PAYE system. You can also pay a minimum wage and pay a minimum wage. It is important to be up to date with the law. It is important to be familiar with the law on fair and unfair dismissal. You should also be mindful of sick pay, maternity and paternity leave. Minimum Wage and National Insurance

Involving the family

As the business develops, you may wish to involve family members. However, you must be able to justify your reasons for doing so commercially. Family members can be remunerated with a salary, and potentially even benefits. Do note, however, that HMRC may challenge overly generous remuneration packages or profit shares. Some business owners may wish to form a partnership with a family member. It may be wise to take non-minor children into partnership – this will allow you to gradually reduce your involvement with the business as you approach retirement, and may serve as a tax-efficient way of passing on the company. Consider your exit from the business: this brings another round of choices, and to get a bespoke solution for your own personal circumstances, it is best

Factsheets

are available in the following formats:

Printed personalised factsheet

£200 for the first 100, then £40 per 50 run on.
Black logo free. Colour logo £110. Delivery £15+VAT.

Personalised PDF – £130+VAT

Intended for emailing or displaying on your website.

Non-personalised PDF – £110+VAT

Text-only Word format – £110+VAT

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Whether you're a budding entrepreneur looking to start a new business, or an existing business owner looking to expand, please contact us to discuss how we can help you.