

Hawsons Chartered Accountants



STARTING IN BUSINESS

*A Practical Guide to Financial, Tax and
Accounting Considerations of Starting in Business*

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Hawsons Starting in Business Guide helps you to understand some of the financial, tax and accounting issues of starting a new business. We have a wealth of experience in providing the financial and commercial assistance to help new start businesses to set up and grow.

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PREFACE

This publication is designed as a practical guide to entrepreneurs starting in business, to assist the reader in understanding some of the issues which new businesses face. It is not a definitive guide and cannot deal with the individual circumstances of each particular business.

It is essential that you obtain good independent professional advice, particularly from your accountant and solicitor, who will be aware of the specific issues to be addressed in your business and have the necessary expertise and experience to guide you through the complexities of starting a new business.

No responsibility for loss occasioned to any person acting or refraining from action as a result of the material in this notes can be accepted.



1. SELECTING A LEGAL ENTITY

One of the first decisions new entrepreneurs will have to make is the form of legal entity that the business will take. This may be dictated by the size of the new business, or the number of people involved, for example many new businesses are started off by individuals who are known as sole traders. Where two or more people carry on a business together they are called partners and their business is referred to as a partnership. Some businesses may start out as sole traders or partnerships and later form a limited company. These are the three basic forms of business organisations. Each has its own benefits and drawbacks and is treated differently for legal and taxation purposes.

1.1. SOLE TRADER

A sole trader is an individual who operates a business by himself. The business does not have a separate legal entity under the law, but rather is an extension of the individual who owns it. The owner has possession of the business assets and is personally responsible for the debts and other liabilities incurred by the business. All business decisions will be made by the proprietor.

The name of the business does not need to be registered although you do have to show on all business documentation the name and address of the business.

1.2. PARTNERSHIPS

A partnership is where two or more individuals join together to run a business. Each of the individual partners has ownership of the business assets and responsibility for the partnership liabilities. The way in which the profits/losses and assets/liabilities of the business are shared between the partners can be determined by agreement between the partners. Normally this is formalised by way of a written document known as a partnership agreement. A partnership agreement is basically a legally binding set of rules between the partners that governs a

number of things including what happens in times of dispute or when a partner wants to leave the partnership. The agreement needs to be drafted by a lawyer, and it exists to protect the future of the partnership and the rights of the individual partners. In the absence of such an agreement these issues will be determined by reference to statute, in particular the Partnership Act 1890.

Typically creditors of the partnership will have recourse to the personal assets of each of the partners for settlement of partnership debts. This is referred to as a joint and several liability.

A partnership is a legal entity in itself and as such has its own rights and responsibilities. It can sign contracts, obtain trade credit and borrow money. All business letters, orders, receipts and written demands must state the name of each partner and the address where documents can be served on the partner or alternatively state where a list of partners can be inspected.

A notice containing the names and addresses of all the partners must be prominently displayed in any place where the business is carried on.

1.3. COMPANIES

A company is a separate legal entity which exists in its own right. It has all the legal rights of an individual and is responsible for its own debts. Typically, the owners or shareholders of a company are protected from the liabilities of the business although certain creditors of small companies for example, banks, may seek personal guarantees from the company's directors/shareholders.

One of the most significant burdens on a company is the need to make available annual accounts and other documents relating to the affairs of the company. These must be filed at Companies House so that they are available for public inspection. Fines are imposed for late filing of certain documents.

Business letters and order forms of a company must contain its full name, the country of registration, its registration number and the registered office address. It is not essential to name the directors but if they are to be specified then they should all be named, including their nationality if they are not EU nationals.

1.3.1. SHAREHOLDER

A shareholder is an individual or company that legally owns one or more shares in a company. A company's shareholders collectively own that company. If there is more than one shareholder in your business you should consider drawing up a shareholders agreement. A shareholders agreement is basically a legally binding set of rules between the shareholders that governs a number of things including what happens in times of dispute or when a shareholder wants to sell their shares. They need to be drafted by a lawyer, and they exist to protect the future of the company and the rights of the individual shareholders.

1.3.2. COMPANY DIRECTORS

If you decided to run your business as a limited company, then you are likely to be a director of the company there are a number of duties you will have, and you should take time to understand them. The role of a director is to run the company on behalf of its shareholders, but in reality in a small business the directors and shareholder are the same people.

The Companies Act 2006 set out the duties of a company director. We have more information available about the responsibilities of a director so please don't hesitate to ask.

1.3.3. COMPANY SECRETARY

The main responsibilities of a company secretary are administrative in nature - ensuring documentation is completed and returned to Companies House and signing off company accounts (although only the directors have any legal responsibility for the contents). The exact role depends on the size of the company, with only occasional administrative tasks required by the typical small business.

Historically, all limited companies had to have a company secretary, but since April 2008, this is no longer a legal requirement due to measures contained in The Companies Act 2006. Now, a limited company can have a sole director - and no company secretary.

1.4. LIMITED LIABILITY PARTNERSHIPS

A **limited liability partnership** (abbreviated as **LLP**) has elements of a partnership and a limited company. An LLP is a form of legal business entity that gives the benefits of limited liability but allows its members the flexibility of organising their internal structure as a traditional partnership. They are intended for businesses which carry on a trade or profession, and are particularly attractive to larger professional partnerships. In an LLP all partners have limited liability - one partner is not responsible or liable for another partner's misconduct or negligence. This is an important difference from that of a partnership, and is similar to that of the shareholders of a company.



1.5. HOW TO DECIDE

The decision as to which form your new business will take may well depend on a number of factors including consideration of the following:

1.5.1. TAX

Whilst sole traders and partnerships are now treated similarly for tax purposes a limited company has to conform with a different regime, which in certain circumstances could have a profound effect on cash flow over that of an unincorporated organisation. Discussions with your accountant based on your expected level of profitability will provide you with a clear idea of the implications of your choice of business entity.

1.5.2. FINANCIAL STRUCTURE

The financial structure of a business may lend itself to following one particular type of entity. If the business is in need of bank finance, a limited company may be the best option as this would allow the bank to take a legal charge over certain assets of the company which it could not do if the business was an unincorporated entity.

1.5.3. LIMITATION OF LIABILITY

Whilst a limited company may be seen to provide a limitation of liability to the shareholders and may therefore seem the best option for people requiring this security, alternatives may be to hand in the form of say product insurance.

Providers of finance to the company may also look for their debts to be guaranteed personally by the directors of the company.

1.5.4. PROFIT DISTRIBUTION

Whilst a sole trader is entitled to all the profits of his own enterprise, profits may be distributed in varying ways through partnerships and limited companies. The partners in a partnership may wish to share profits on a simple percentage basis or variations could be introduced providing for prior shares of profits or partners' salaries, depending on the individual partner's involvement in the business. A company may use alternative remuneration methods including salaries, dividends, pensions and benefits in kind.

1.5.5. STATUS

Even though there are many large and reputable businesses carried on by sole traders or partnerships, the public may wrongly assume that a company is more likely to continue in business and is seen as having a higher status than an unincorporated enterprise. Certain industries require all the businesses they deal with to be limited companies.

1.5.6. STATUTORY REGULATIONS

Whilst, in general, there are no statutory regulations governing the production of accounts for an unincorporated business, companies have to comply with a multitude of regulations relating to the preparation and filing of annual accounts. This is in addition to separate Companies Act requirements covering numerous other issues such as information that has to be contained within business stationery.

Annual accounts of companies are referred to as statutory accounts and have to be prepared in a specific format and comply with Companies Act requirements.

Additionally the accounts may have to be subject to an independent audit which has to be carried out by a qualified accountant. When the audit is complete the accountant is required to issue a report which states that the accounts give a true and fair view of the state of the company at the balance sheet date and also that the profit and loss account for the period gives a true and fair view of the trading which has been transacted.

If the auditor is unhappy about any area in the accounts, then he is obliged to refer to this in his audit report if he feels that the matter is important enough.

Small companies under certain turnover / asset levels, may be exempt from having an audit and can also take advantage of rules which enable them to only send in part of their accounts to Companies House rather than the full set. These are known as abbreviated accounts and limit the availability of information available to the public. Specific advice is required from your accountant before deciding upon the legal entity which is most appropriate to your particular circumstances.



2. ACCOUNTING AND BOOKKEEPING

2.1. THE VALUE OF ACCOUNTING RECORDS

The value to a business of keeping up to date and accurate accounting records can never be underestimated. Quite often though in new businesses the accounting function is the last thing to be given consideration as entrepreneurs are too busy building the business up. Until it is required, that is.

To illustrate this point let us assume we have a new business in the retailing sector with relatively modest bank borrowings which are required to finance stocks and debtors. In its first year of trade the business was very successful, profits were made and sales were increasing rapidly. Too rapidly in fact, to the point that debtors had also gone up significantly and additional stock was required. The problem arose when the new businessman approached his bank manager for additional money to finance the growth in business i.e. additional working capital in the form of stocks and higher debtors. However, without proper accounts how could the bank manager know that the business had been successful and that the additional cash was required to finance growth and not losses.

Without up to date figures a bank manager would have no evidence to back up the additional lending facilities which were desperately required. It is at this point that the real value of up to date proper and accurate accounting records is known. If there are systems in place to facilitate the processing of the necessary information right from the start then this situation should not arise. In fact many banks who lend money to new businesses insist on regular financial updates as a matter of course.

2.2. TYPE OF ACCOUNTING SYSTEM

Quality financial information does not however mean complicated bookkeeping or accounting systems and does not necessarily require computerisation. Far too often owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them. The system should be like any other tool in the business, it should be sophisticated enough to provide the information needed to run the business and simple enough to operate. Before you develop an accounting system you should identify the information that you require from it e.g. monthly profit figures, aged debtors, bank balance etc.

As your business grows, you should work closely with your accountant to ensure that your accounting system is providing you with appropriate information. At some point it may be necessary to turn from a manual system to a computer system. This need not be an expensive option and advice from your accountant at this time would be worthwhile.

Accounting systems can cover all aspects of your business from contact management, sales, purchases, bank accounts, VAT, stock control, job costing and so forth. The most important thing is that the system is right for your business as there is no point in generating information for the sake of it, if it is of no use to anyone. The system should be simple, sensible, relevant and provide reliable information which can be used to manage your business.

2.3. COMPUTERS

Computerised systems, when used properly, are extremely useful tools in your business. They can accommodate both your business requirements and your accounting requirements. You get the most business benefit when your systems assist you in running your business and as a “by-product” help you to produce your accounts, rather than systems which are solely related to keeping your accounts.

Choosing the right business software for your business is extremely important and by making good choices the systems can play an important part in the growth of your business.

There are a number of very good, easy to use systems which are available “off the shelf” at very reasonable prices. Your accountant knows about both your business and your accounts so he can take much of the confusion out of the selection process by assisting you to choose the right system for your business.

3. TAXATION

The taxation laws in the UK are very extensive and can be confusing for new businesses whether they are sole traders, partnerships or limited companies. This chapter is not intended to cover all the tax implications of a new business, but to provide some guidance on compliance. A qualified accountant should be consulted when dealing with taxation matters.

3.1. INCOME TAX

All proprietors and partners of unincorporated businesses will be subject to income tax on their business profits. Whilst it is not possible to summarise here all the rules appertaining to exactly how profits are taxed, you may find it useful to know the following:

BUSINESS PROFIT

Profit may be defined as the difference between the revenue income generated by the business, and all the direct costs and expenses which are incurred by the business in order to generate the income.

WHAT EXPENSES CAN BE DEDUCTED IN DETERMINING BUSINESS PROFIT

You can normally deduct day to day running costs of your business which are incurred wholly and exclusively for business purposes which include such items as purchases of goods for resale, wages (but not cash taken for self), rent, rates, motor expenses, insurance etc.

If you incur any expenditure which is partly for business purposes and partly for private purposes, you can only claim the business part. H M Revenue & Customs do not allow tax deduction claims for

personal expenditure e.g. own wages, food, income tax. There is also no relief available for certain other types of expenditure e.g. entertaining customers. Your accountant will be able to advise on these issues.

Expenditure on capital items i.e. business assets which are expected to last for a number of years, may not be allowed as a fully tax deductible expense in the year of purchase. This will be dependent on the type of capital expenditure and how much expenditure is incurred in a particular year. There are special rules governing this type of allowances, which are known as capital allowances. The amount of the initial first year allowance and subsequent annual allowances available can vary depending upon the type of asset purchased. Specific advice will need to be sought in this area.

RECORD KEEPING

All tax payers must keep records of their income in order to prepare a Tax Return. Self-employed people must keep these records for 5 years after the filing date of the Tax Return.

THE TAX RETURN

Each year tax payers will receive a Return which may include several schedules covering different sources of income, if applicable. The form has to be completed, to include details of business profits and must then be submitted to H M Revenue & Customs by the relevant due date. Penalties are to be levied by H M Revenue & Customs for not submitting Tax Returns on time. In addition surcharges and interest will apply to tax paid late.

3.2. CORPORATION TAX

The rules relating to the calculation of assessable business profits for corporation tax are similar to those of income tax but they relate to companies rather than individuals. The main differences relate to the treatment of wages for self (drawings), private use expenditure and dividends.

WAGES FOR SELF (DRAWINGS)

Whereas an unincorporated enterprise cannot deduct the proprietors/partners own drawings in arriving at the taxable profit, a different situation arises with limited companies. This is because the company is a separate legal entity and the “proprietor” becomes an employee of the company, and is treated for tax purposes the same as any other employee. Therefore any remuneration from the company will be subject to the PAYE/NIC rules and accordingly will become a deduction against the profit of the business.

PRIVATE USE EXPENDITURE

If companies incur private use expenditure for its owners e.g. home phone, motoring expenses, these may still remain a fully deductible expense in the company, but to the extent that there is a personal benefit to the individual, then the individual will pay tax on the amount of the benefit. These benefits are notified to H M Revenue & Customs on an annual basis by completion of a form P11D although company car changes have to be notified quarterly on an H M Revenue & Customs form P46 (car). The company will also be subject to Employers’ National Insurance on the value of the benefits.

DIVIDENDS

Remuneration packages and distributions from companies can be further complicated by the introduction of dividends. A dividend is a distribution of profit to shareholders in a company, and is therefore another remunerative method which needs to be considered.

Different effective rates of tax apply to salaries and dividends depending on the circumstances of the company and its shareholders. Advice should be taken from your accountant to devise the most tax efficient remuneration structure.

THE TAX RETURN

Companies have to complete a year end Tax Return in a similar way to individuals. The filing dates and tax payment dates are linked to the company’s year end whereas for individuals the filing dates and tax payments dates are fixed irrespective of when the business year ends. Penalties and interest charges are levied by H M Revenue & Customs for the late submission of Returns and payment of tax.

3.3. VALUE ADDED TAX

VAT is an indirect tax charged by businesses when they supply goods and services. If you are in business and your taxable turnover exceeds the registration threshold then you become a taxable person and you must register for VAT. A taxable person can be an individual, a partnership or a company and the registration of that person applies to all business activities conducted by that person i.e. it is the person who is registered not the business. It may, in certain circumstances, be advantageous for you to become VAT registered on a voluntary basis even though your turnover is below the threshold for registration. Your accountant will be able to advise you on this.

All registered persons must account for VAT at the appropriate rate whenever taxable goods or services are supplied and business stationery must contain certain information. The supplies which you make are referred to as your outputs and you must account for output tax on these. Any costs which you incur in the course of running your business are referred to as inputs and to the extent that you have incurred input VAT and have the appropriate documentation to support this it can be reclaimed. When you receive a VAT Return input tax is deducted from output tax and the difference is paid to Customs and Excise. Should the input VAT exceed the output VAT in any particular period then a refund will be made. VAT Returns which are normally issued quarterly have to be completed and submitted to Customs and Excise within 30 days of the end of the relevant period.

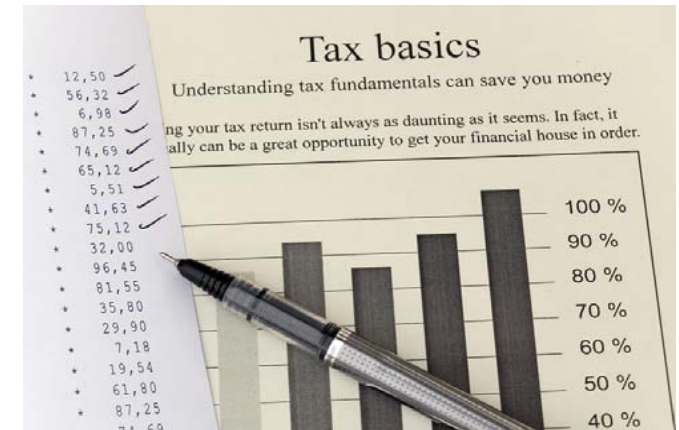
Businesses below a certain size can choose to pay a flat rate of VAT to Customs & Excise, as an alternative to keeping detailed records of all input and output VAT based upon the value of sales. Whether this is beneficial will depend upon the nature of your business and the levels of output VAT suffered. Your accountant will be able to advise you on this. As with other taxes the late submission of the Return and late payment of tax attracts penalties and interest. A number of special VAT schemes operate for smaller businesses e.g. cash accounting and annual accounting, and advice should be taken from your accountant to determine if these would be appropriate for your business.

3.4. EMPLOYEE TAXES

Any tax/national insurance contributions deducted from the gross pay of employees must be paid to HM Revenue & Customs on a timely basis in accordance with strict rules. In addition to this there are a number of year end returns and forms which have to be completed and submitted to HM Revenue & Customs in respect of all employees. There are strict deadlines for the submission of these forms and penalties are applied for late filing.

3.5. REGISTERING WITH THE TAX AUTHORITIES

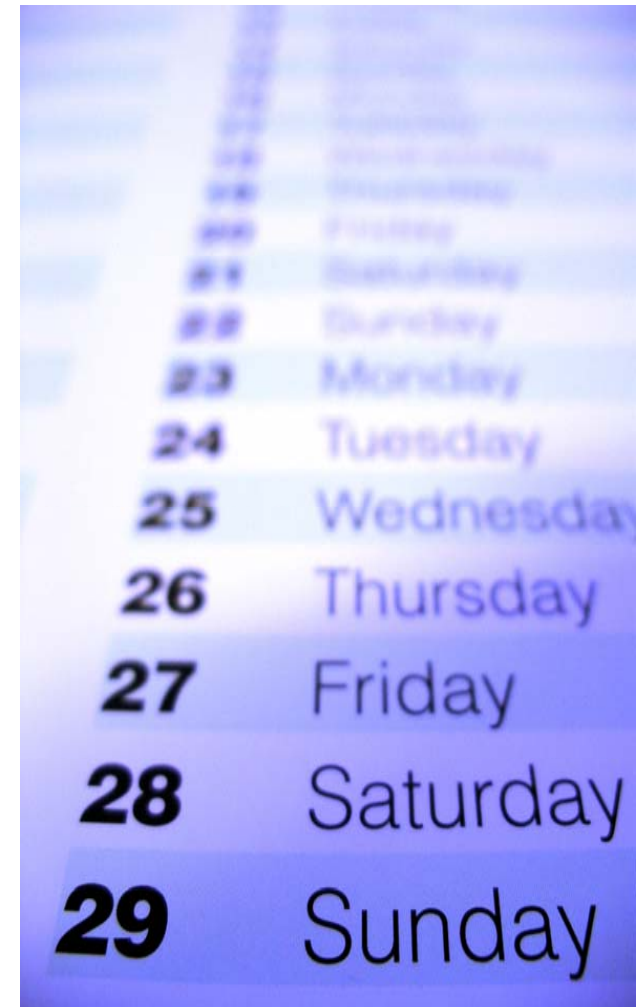
Because of the complexity and extensiveness of the taxation requirements, and the penalties which are imposed for non-compliance and late filing of Returns and forms, it is essential for a new business to get off to a good start with the tax authorities. This means registering with the relevant authorities at the earliest opportunities. Registration can be done online, in writing, or on the telephone.



3.6. TAX CALENDAR

The following is a summary of critical dates for tax payers:

Date	Event	Who's affected
31 Jan	Last date for submission of Tax Return under Self Assessment. 1st on account interim tax payment for unincorporated business profits and untaxed investment income plus any balancing payment from prior years.	The majority of taxpayers who receive an annual Tax Return
6 Apr	Self Assessment Tax Returns are issued.	Taxpayers who currently receive an annual Tax Return.
19 May	Deadline for submitting the Annual Return forms P35 and P14.	Businesses which have employees.
31 May	Deadline for providing forms P60 to employees.	Businesses which have employees.
6 Jul	Deadline for providing P11D details to employees. This is also the deadline date for submitting forms P11D and P9D to H M Revenue & Customs.	Businesses which have employees.
31 July	2nd on account interim tax payment for unincorporated business profits.	Self-employed taxpayers.
30 Sep	Time limit for submission of Tax Return if H M Revenue & Customs are to calculate the tax liability.	Taxpayers who do not want to calculate their own liability or who do not have a tax adviser.
31 Oct	Last date for submission of paper Tax Returns under Self Assessment.	Taxpayers who do not want to submit Returns online.
Company Tax Returns have to be submitted within 12 months of the year end and tax is payable nine months after the year end date.		



3.7. NATIONAL INSURANCE

Most people who have earned income will have to pay National Insurance Contributions. There are six different classes of National Insurance and the type which you pay will depend upon your category of employment.

The contributions count towards certain benefits and it is important to know which type you have to pay.

The following summarises the various types and who has to pay them.

National Insurance		
Type	Payable by	Based on
Class 1	Employed people.	Percentage of earnings.
Class 1A	Employers who provide employees with motor vehicles and other assessable benefits in kind.	Percentage of the tax value of the benefit in kind.
Class 1B	Employers who make PAYE Settlement agreements.	Percentage of the Settlement agreement.
Class 2	Self employed people.	Flat weekly rate.
Class 3	Voluntary contributions.	Flat weekly rate.
Class 4	Self employed people.	Percentage of business profits.

3.8. PENALTIES FOR LATE FILING

H M Revenue and Customs have a comprehensive range of penalties to encourage compliance with tax filing obligations. Whilst there is some relaxation of these penalties for new businesses, this is not automatic and care should be taken to ensure that no deadlines are missed. Below is a list of the more common filing obligations and penalties:-

Penalties for late filing		
Return	Filing Deadline	Basic Penalty
Notifying HRMC of commencement of trade	3 months from trade commencing	£100
Income tax return	31 January following the year of assessment	£100
Corporation tax return	12 months after the end of the accounting period	£100
Employers' annual return - P35.	19 May following the end of the tax year	£100 for each month late
Employers' annual return of benefits	6 July following the end of the tax year	Up to £300
Subcontractor's monthly returns	14 days after the end of each tax month	£100

4. EMPLOYING PEOPLE

As your business develops and expands you will probably need to employ more staff, which can present its own difficulties. The following is not intended to cover all aspects of employing people, but to provide details of areas which you may want to consider further.

4.1. CONTRACTS OF EMPLOYMENT

It is a legal requirement that an employer must provide every employee with a written contract of employment, stating certain minimum conditions, although the contract may include conditions beyond those required by law.

The information which must be given in the contract is as follows:

- names of the employer and employee;
- employee's job title;
- date employment commenced;
- place of work;
- salary or wage levels, dates of payment and method of payment;
- normal hours of work;
- pension scheme details, if any;
- terms and conditions regarding injury or sickness;
- notice period;
- disciplinary and grievance procedures;
- holiday entitlement.

4.2. PAY AS YOU EARN (PAYE) SCHEMES

Any employer must, under taxation regulations, keep records of all payments made to employees. These records should be made available to the tax authorities for inspection. This rule applies regardless of the amount involved.

For each tax year the government sets earnings thresholds for income tax and class 1 national insurance. Earnings above these limits become subject to an automatic deduction from wages at source under the PAYE system.

In practice the national insurance threshold is normally a few pounds a week lower than the tax threshold.

Tax and national insurance is then deducted from the employees' pay every time the employee is paid. The employer must pay these deductions over to H M Revenue & Customs on a timely basis together with the employers national insurance contributions, where appropriate. The following is a summary of the employer's duties under the PAYE scheme:

The employer is required to:

- a) operate the PAYE scheme for all relevant employees;
- b) keep the payroll and tax records necessary for the PAYE scheme;
- c) pay over each month the tax and national insurance; there is a penalty for late payment of monthly PAYE tax and National Insurance.
- d) let H M Revenue & Customs and DSS officials inspect the records;
- e) submit all returns when employees leave or depart or when there are other relevant changes;
- f) submit end of tax year returns, complete with a return of expenses paid and benefits provided;
- g) provide employees with itemised payslips every pay day, and with P60 tax certificates at the end of each year;
- h) keep the tax and payroll records for at least three years after the end of the tax year.

4.3. CASUAL LABOUR

Employees can be employed on a casual basis, but such people are still liable to tax and national insurance on their earnings. However if the employee has no other income and their income from you is small it is possible that their earnings will be below the income/national insurance threshold in which case no deductions will have to be made. Where casual employees are employed for more than one week they should be treated as normal employees and be given a form P46 to complete. In a PAYE audit inspection casual labour is one of the first areas to be investigated; it is therefore essential to follow the rules carefully.

4.4. SUBCONTRACTOR DANGERS

Because of increased scrutiny of payments to subcontractors by H M Revenue & Customs it is recommended that professional advice be sought from your accountant in this area before employing people on a subcontract basis.

4.5. HEALTH AND SAFETY

Legislation is in place, being the Health and Safety at Work Act 1974, which provides that "it shall be the duty of every employer to ensure, so far as is reasonably practicable, the health, safety and welfare at work of all his employees."

Under the Act inspectors have the authority to carry out various duties including making routine inspections and visits where there has been a serious accident or complaint.

If in the Inspector's opinion the employer is or has contravened the provisions of the Act, he may issue an improvement notice requiring the contravention to be corrected.

In cases of serious personal injury an inspector may issue a prohibition notice stating a time limit within which the activities which pose the risk must cease.

Other general duties imposed on employers are:

- a) to provide and maintain plant and systems of work that are safe and without risks to health;
- b) to ensure that the handling, storage and transport of articles and substances are done with safety and absence of risks to health;
- c) to see that any place of work under the employer's control is maintained in a condition which is safe and without risks; and the provision and maintenance of means of access to and from it are safe and without such risks;
- d) to provide and maintain a working environment for his or her employees that is safe, without risks to health and adequate as regards facilities and arrangements for their welfare at work.

4.6. PAYROLL BUREAU SERVICES

Payroll bureau services are now being offered by many firms, in particular accountants who have the in house expertise to deal with this increasingly complex area. The services are normally provided by payroll specialists who in addition to maintaining the day to day payroll of the employees, and dealing with the month end and year end procedures, are available to advise on other payroll matters such as contracts of employment, maternity pay, sick pay, tax codes etc.

5. FINANCIAL PLANNING AND FORECASTING

5.1. FINANCING THE BUSINESS

Many new businesses fail, or do not even get off the ground because of a lack of funds. If your business needs financing to get off the ground and survive it must be a “bankable” proposition with its finance correctly matched to its needs. The funding should be structured with your own financial commitment to the business together with outside finance, as appropriate, to enable it to survive any reasonable downturn in fortunes. It is therefore essential for the business to have a sound equity base from which to start.

5.2. TYPES OF FINANCE

5.2.1. PROPRIETORS EQUITY

Any investor/lender to the business will be looking for you, the proprietor, to be putting some of your own money into the business. This demonstrates your commitment to the business. The amount which you will have to put in as compared to an outsider will depend on a number of things and may be unique for your own circumstances.

5.2.2. BANKS

Banks are in business to make money and whatever amount they lend they will want it repaid over time together with an appropriate rate of interest. The rate at which interest is charged will depend upon a number of factors but it will normally take into account consideration of the bank’s risk involvement, the business’s asset backing, and the bank’s assessment of the individual to whom they are lending.

Banks may also require personal guarantees from directors of limited companies in certain circumstances.

5.2.3. INSTITUTIONS (VENTURE CAPITAL)

There are a number of organisations that are prepared to take a minority holding in a small business. However their minimum investment is normally relatively high and their involvement will normally involve you giving up part of the equity ownership of the business.

5.2.4. FACTORING/INVOICE DISCOUNTING

Factoring is a means of short term funding through improved cash flow. If your business has trade debtors you may be able to sell these to a factoring company who is able to advance up to 80% of the debtors balance in advance of these being paid by the customer. As part of the package the factor will normally take control of the sales administration and collection side of the business and will pay the balance of the invoice less any charges upon the invoice being paid.

Invoice discounting is similar to factoring except that the administration and collection of sales is retained within your business.

5.2.5. LEASING AND HIRE PURCHASE

This type of finance is provided by finance houses and banks and are means by which to purchase or use assets in the business. The main difference between lease and hire purchase relates to ownership of the asset. A hire purchase contract is for the hire of an asset which contains a provision giving the hirer an option to acquire legal title to the asset. A lease is a contract for the hire of an asset for an agreed period of time with the lessor retaining ownership of the asset.

5.2.6. GOVERNMENT SOURCES

There are a number of Government sources available which include grants as well as loan guarantee schemes, whereby banks are encouraged to lend money to smaller businesses in positions where the banker might not have otherwise been prepared to lend. In general try and avoid organisations offering grant searches for an up front fee as you may be disappointed. Your accountant may be able to assist in sourcing government funds/grants for particular projects.

5.2.7. OTHER FORMS OF FUNDING AND SUPPORT

There are other sources of funding that can help businesses in the start up phase. It is worthwhile speaking to Business Link (a national business support agency funded by the government) at the earliest possible stage of your business as they can best advise on what grants may be available locally. Grants are dependant on location and availability, and schemes come and go on a regular basis, so it always good practice to keep in touch with Business Link to assess what may be available.

Local councils often have initiatives supporting small business start ups, so it is worth checking with yours to see if any support is available.

You will find there are many Enterprise Agencies in the region, we will be happy to give you some up to date information on which Agencies may be able to assist in your area. In addition there may be support directly available from your Regional Development Agency, so it is worth checking out their website.

The important thing to remember about virtually all grants is that they are not retrospective, so if you commit to expenditure before receiving an offer for a grant then the expenditure is likely to be excluded.

In addition to grants, there maybe other types of loans available other than through a bank. These maybe through Enterprise Agencies or Venture Capital (VC) organisations. We can advise you on this.

It may also be possible to approach a VC with regard to equity investment in your business, and again we can advise you on this.

Finally, there maybe individuals who are looking to invest in small businesses, sometimes referred to as Business Angels. We can discuss this with you.

5.2.8. TRADE CREDIT

A very important source of financing for your business may be from the suppliers with whom you do business. Many suppliers will originally ask for cash on delivery but as your relationship develops you should be able to obtain normal business credit terms. Trade credit terms will vary depending on the type of purchase you make, the industry you are buying from and the industry you are in.

5.2.9. PRIVATE INDIVIDUALS

Individuals who are successful in their own right and have accumulated wealth may be looking to invest in other new business. These individuals will be like venture capital companies and may want to participate in the management activities of your business. The business acumen of these individuals can often be a valuable asset to your business.

5.3. HOW TO OBTAIN FINANCE

It is usual for a new business which is seeking finance to prepare a business plan setting out its objectives and finance requirements incorporating financial forecasts which project profits, cash flows and balance sheets and demonstrate the sensitivity of these projections to trading assumptions. Whilst each business plan will be unique it should convey the drive, character and determination of the management. Although it is not possible to provide a comprehensive list of everything which a business plan should include as this will depend on the nature of the venture and the amount of finance being sought, most lenders would normally expect the following areas to be covered:

5.3.1. EXECUTIVE SUMMARY

This will outline the purpose of the plan and state the amount of finance required and how long it is required for.

5.3.2. INTRODUCTION TO THE BUSINESS

A detailed description of the business, its products or services, and the market in which it intends to operate.

5.3.3. MANAGEMENT

The roles of key management should be explained, who they are, and their relevance to the enterprise.

5.3.4. BASIS OF OPERATION

Details of location, premises, facilities and future requirements.

5.3.5. PRINCIPAL RISKS AND PROBLEMS

Details of product development and, if appropriate, whether its tried and tested or still in the development stage. Identify the main threats from competitors. Prepare sensitivity analyses on sales and costs highlighting the areas which are most likely to vary.

5.3.6. FINANCIAL PROJECTIONS

These would typically include forecasts of profits, cash flow and balance sheets for up to three years. These should also include details of all the main assumptions used in the preparation of the forecasts.

5.3.7. FINANCE REQUIRED

As the aim of the business plan is to raise finance this section is of key interest to the potential lender. It should clearly state the amount of finance that you are looking for, and when it will be required.

6. RETIREMENT PLANNING AND INSURANCE

6.1. RETIREMENT PLANNING

You will have the option to arrange a personal pension or an occupational pension scheme dependent whether or not you are employed, self employed or have set up a limited company. The choice of which pension plan will suit you best will depend on your own personal circumstances, your aims and objectives, as well as the likely level of contribution you may wish to make.

A major factor is to consider when you wish to draw your pension benefits as this would determine which scheme would be most appropriate

It is widely recognized that a pension is the most tax efficient investment you can make. Primarily this is because you can claim tax relief on any contribution you make at the rate of income tax you pay. Please note that tax relief for individuals is treated differently from the way that a company would claim tax relief.

For an individual making a pension contribution, basic rate tax relief is given at outset whether employed or self employed. Therefore for a £10,000 contribution the actual cost is £8,000. If you are a higher rate tax payer then additional tax relief is obtained via your tax return and PAYE coding or accounts.

Company pension contributions will attract corporation tax relief at the companies tax rate applicable.

Whichever route you choose the pension fund will grow largely tax free.

It is also important for you to be aware that you can use your pension to assist your business to grow. It is possible for you to purchase commercial property via your pension fund and lease this back to your business. This facility is available through either Self Invested Personal Pensions or Small Self Administered Scheme. (SIPP or SSAS).

STAKEHOLDER PENSIONS

The Government introduced Stakeholder Pensions from April 2001 and an “employee access” requirement is now mandatory. Therefore if you have 5 or more employees earning above the lower earnings level, Stakeholder will affect you.

STAKEHOLDER BASICS

A Stakeholder Pension is basically the same as a Personal Pension but has to have a simplified charging structure under which charges are capped at 1% of the fund value each year. They are money purchase plans in which the member will be able to choose their own investment funds, from the selection allowed by the Stakeholder Provider, but if the member is unable to choose then the Provider will have a designated default investment strategy.

The maximum contributions allowable into Stakeholder Pensions are to be the same as those currently allowed into Personal Pension Plans. It is expected that by the provision of advice in the form



of a “decision tree” individuals will not require assistance from a Financial Advisor and therefore costs can be kept to a minimum.

Stakeholder Pensions are specifically aimed at employees earning between £9,000 and £20,000 per annum.

EMPLOYERS RESPONSIBILITIES

The introduction of Stakeholder Pensions does have implications for employers and these are summarised below.

EMPLOYEE ACCESS

Employers have to:

- Designate a Stakeholder Scheme, which is registered with the Pensions Regulator. Tax approval is required from HMRC.
- Provide employees with information about the Scheme to enable them to contact the designated Provider.
- Make deductions from an employee's salary for their pension contributions to the designated Stakeholder Scheme.
- Employees will not be compelled to join a Stakeholder Scheme.
- Employers are not required to contribute to them.
- Employers must offer access to Stakeholder Pensions within 3 months of the employee starting work.
- Employees will have the right to vary the amount their employer deducts from their pay at 6 monthly intervals.

EXEMPTIONS

Employers will be exempt from having to provide access to a Stakeholder Pension Scheme for their employees in the following circumstances:

- Employers with fewer than 5 employees.
- Employers offering Occupational Schemes where all staff are eligible to join the Scheme within a year of starting work.
- Employers who offer a Group Personal Pension Plan to all staff to which they make contributions of at least 3% of their employees earnings. An additional requirement will be that there should be no exit charges.

DRAWBACKS

For a lot of people a Stakeholder Pension may be the perfect vehicle for them, however there are some drawbacks and these are as follows:

- Investment opportunities will be restricted by the Provider of the Scheme. Because there are restrictions on the charges that are allowed, the fund manager will not offer their full range of funds to members.
- Additional benefits such as life assurance cover and waiver of premium benefit can be included but at additional cost.
- If the Government changes its requirements for Stakeholder Pensions, then all arrangements will probably have to be altered accordingly, no matter what impact that has. Stakeholder Pensions are a political tool and changes in Governments might change the way in which they are allowed to run.
- The actual Stakeholder Provider is ultimately chosen by the employer, if the employer has to provide access. Therefore the employee will have no choice over where their monies are invested.

A very important point to reiterate to you is that there is no requirement on the employer to make any contributions whatsoever into any Stakeholder Pension Scheme.

6.2. KEY PERSON ASSURANCE

The success of any business enterprise normally revolves around two or three key individuals. Imagine the impact on the business if it lost a person who contributes most to profitability. Where possible we advise clients to ensure that in the event of the death of a key person the company receives a cash sum to enable the business to keep trading during what would be a difficult time. This sort of cover is normally arranged on a “term” basis.

We would also recommend that Critical Illness Cover be built in to provide a lump sum payment in the event of the diagnosis of a critical illness. Again a successful claim would result in a lump sum being payable to the company as owners of the policy.

You may well find that it is normal for financial institutions to insist on key person cover although this is sometimes mistaken for loan protection. It also is important to consider the taxation implications on arranging key person assurance.

6.3. SHAREHOLDER / PARTNERSHIP PROTECTION

This type of cover is normally put in place where partners or co-directors wish to continue the business in the event of the death of a co-director or fellow partner. The normal procedure is to arrange a life assurance policy for the value of someone’s shares or partnership profits, which in the event of a death would allow the deceased persons estate to

sell shares or partnership share of profits back to the surviving directors or partners. The most common ways to arrange this cover are what is known as “automatic accrual” basis or a “cross option” agreement.

6.4. PERMANENT HEALTH INSURANCE

What would happen if you were unable to work for a period of in excess of one year? Who would pay you? Would your company survive?

Permanent Health Insurance acts as salary replacement to individuals. Benefits are paid out after a qualification (deferred) period and will then continue to be paid until an individual is able to return to work in their “own” occupation or they retire.

Individual PHI benefits are normally a maximum of 65% of your salary or profits less the benefits that the state provide. In the event of a claim being made policy proceeds are tax free as long as the individual is unable to work due to sickness or accident, unless benefits are being paid from an executive policy where proceeds are treated as PAYE earnings from outset.

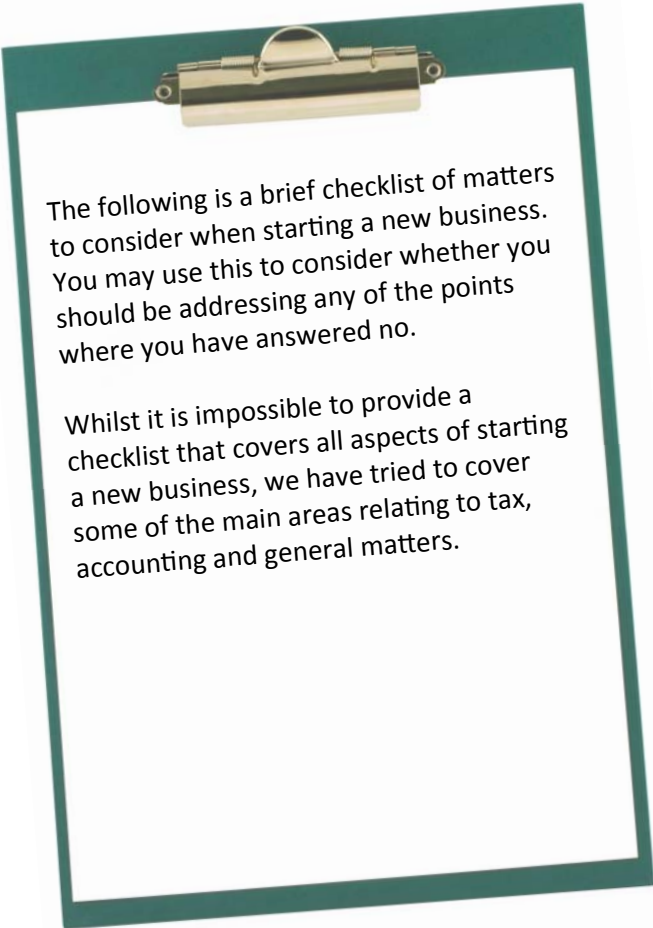
6.5. LOAN PROTECTION

When a company/partnership/sole trader has overdraft facilities or loans arranged it is common for the provider of these facilities to request additional security. This additional security is normally in the form of a life assurance policy. The policy would be taken out in the name of the company or individual with the proceeds being assigned to the bank.

6.6. INDEPENDENT FINANCIAL ADVICE

It is important that when you start a new business you take independent advice on any financial planning matter.

7. NEW BUSINESS CHECKLIST



The following is a brief checklist of matters to consider when starting a new business. You may use this to consider whether you should be addressing any of the points where you have answered no.

Whilst it is impossible to provide a checklist that covers all aspects of starting a new business, we have tried to cover some of the main areas relating to tax, accounting and general matters.



7.1 Checklist



Have you or your accountant registered you with the relevant tax authorities?



Have you completed an H M Revenue & Customs form CWF1/CT41G as appropriate?



Have you completed an H M Revenue & Customs authority form 64-8, to enable your accountant to correspond directly with H M Revenue & Customs?



Have you considered the possible tax advantages/ disadvantages of differing year end dates?



Have you planned your remuneration package tax efficiently 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?



Have you considered pensions and made appropriate arrangements for you and your employees?

8. USEFUL CONTACTS

VAT

H M Revenue & Customs National Advice Centre
0845 010 9000
www.hmrc.gov.uk

SELF ASSESSMENT

H M Revenue & Customs Self Assessment Helpline
0845 9000 444
H M Revenue & Customs Orderline
0845 9000 404
www.hmrc.gov.uk

NATIONAL INSURANCE CONTRIBUTIONS

H M Revenue & Customs Helpline
0845 302 1479

COMPANIES HOUSE

029 2038 0801
www.companieshouse.co.uk

HEALTH AND SAFETY

08701 545 500
www.hse.gov.uk/

9. APPENDIX

9.1 Taxation forms

Please click on the links below for a number of the taxation forms which are relevant to new businesses:

Form 64-8

H M Revenue & Customs authority form
<http://www.hmrc.gov.uk/forms/64-8.pdf>

Form CWF1

H M Revenue & Customs, registering as self-employed
<http://www.hmrc.gov.uk/forms/cwf1.pdf>

Form CT41G

H M Revenue & Customs, corporate enquiry form
<http://www.hmrc.gov.uk/ctsa/ct41g-08-05.pdf>

Form VAT1

H M Revenue & Customs, application for registration
http://customs.hmrc.gov.uk/channelsPortalWebApp/downloadFile?contentID=HMCE_PROD1_026385

H M Revenue & Customs Self Employed Annual Tax Return

<http://www.hmrc.gov.uk/forms/sa100.pdf> and <http://www.hmrc.gov.uk/forms/sa103s.pdf>

H M Revenue & Customs Partnership Annual Tax Return

<http://www.hmrc.gov.uk/forms/sa800.pdf>

Form CT600

Annual Corporation Tax Return
<http://www.hmrc.gov.uk/ctsa/ct600-2008.pdf>

Form P11D

Return of expenses, payments and benefits
<http://www.hmrc.gov.uk/ebu/p11d-2009.pdf>

10. MISCELLANEOUS

R & D TAX CREDITS

Research and development (R&D) helps companies improve profits and grow by creating new high value-added products, processes and services. R&D tax credits are at the heart of the Government's strategy to raise levels of business investment in R&D and encourage business innovation by providing a tax incentive.

The relief was developed through consultation with business and is available to companies throughout the UK and across industry sectors. To be able to claim relief a company must meet the strict HMRC criteria for there to be qualifying R&D expenditure.

The incentive provides an extra tax deduction based on R&D spending. For certain loss making small or medium sized companies (SMEs) it may be possible for them to surrender their losses in return for a cash payment from HMRC.

ENTERPRISE INVESTMENT SCHEME

Enterprise Investment Scheme (EIS) can aid companies who are seeking equity investment. The scheme offers various types of tax reliefs to individuals who are looking to invest. Not all companies are eligible for the scheme and there are strict criteria that are applied in order to qualify, so if you are considering equity investment in your business, then please contact us to discuss the scheme further.

ENTERPRISE MANAGEMENT SCHEME

Enterprise Management Scheme (EMI) allows employees to own shares in the company in which they work, with the aim of incentivising them to act as "owner" of the business which can improve loyalty and enthusiasm. Allowing this share ownership through a scheme with tax benefits - such as the EMI scheme - is an attractive option. Again there are strict criteria that need to be applied in order to qualify for the tax benefits and we can provide more details on request. Eligible employees must work a minimum of 25 hours a week or 75 per cent of their working time. This scheme is increasing popular with small businesses who want to retain key people within their business.

INTELLECTUAL PROPERTY

Intellectual property (IP) forms the backbone of every business. Whether you are dependent on the distinctiveness of your brand, the strength of your innovation, or the creativity of your suppliers, it is important that you consider your IP and your ability to exploit it effectively. Even in the very early stages of a business, particularly when you have created or developed something new, protecting your IP or at least understanding what the issues are is very important. From a legal perspective IP is a very specialist area, and you need to make sure you speak to someone who specialises in IP. IP covers a wide range of subjects including trademarks, copyright, patents and design registrations. We will be happy to give you a recommendation.

PROFESSIONAL ADVISORS

As well as making the right choice of accountant it is important that you look for the right bank and solicitor. Having a team of professional advisors that are in contact and working together on your behalf is a huge benefit to any business, so you need to make sure you make the right choice. You need to be clear about what you expect from each of your advisors and take time to get recommendations from others, especially people who have been in a similar position to you when starting a business.

Hawsons is a leading independent firm of Chartered Accountants with staff based in Sheffield, Doncaster and Northampton.

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To find out more about how Hawsons can help you, please call your local office or visit our web site at www.hawsons.co.uk.

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