

Your Guide to
STARTING A BUSINESS
2016-17



Planning your Business

Ward Williams can help you plan your business and provide answers to some of the questions you should consider before preparing a business plan:

- Have you any funds you can put into the business?
- Are you familiar with the legal requirements placed on you as a business proprietor?
- How much income will you need and what business costs will there be in your first year?
- Do you need help raising finance for your business?
- After business expenses, including taxation and national insurance, have you estimated what your salary and profit could be?
- Have you considered how you can minimise your tax liability so that you keep more of what you earn?

There are many other matters you need to consider before you go into business and during your all-important first year. With careful planning and the right advice you could **earn more and pay less tax**.

Using us as your Business Adviser

Ward Williams can help your business grow efficiently and profitably in a variety of ways:

Preparing your accounts – management accounts to enable you to check regularly on your business growth, trends, and profitability. Also financial accounts to meet statutory filing requirements.

Tax planning - to minimise your tax liabilities. **Preparing budgets, cash and profit forecasts** to help you forecast your future business performance.

Financial planning - helping you plan both your business and personal finances. We can compile the data you need to secure finance for your business. Contact us if you are debating whether to buy or lease equipment, or if you are anticipating a major financial event such as inheritance, you could reduce your tax liability.

Bookkeeping - our computerised bookkeeping services enable you to concentrate on those aspects of running a business which truly warrant expenditure of senior management time and effort.

Accountancy and taxation advice – tailored to your business and personal requirements.

Business planning - for example; devising the best structure for your business, advice on when to incorporate and whether to buy a franchise, determining which of your products/services are viable, and the right timing for your investment in new business equipment to maximise Annual Investment Allowance claims, and/or providing a specialist review of tax incentives for R&D and Patents as relevant to your business.

The Value of Outsourcing

Maintaining proper books and records for your business is a legal requirement. This may be more than enough responsibility for most business owners but when coupled with running the Payroll, accounting for VAT or operating a Construction Industry Scheme, being fully compliant can become quite daunting. As a result, many of our clients have 'outsourced' this work to our experienced team in exchange for the assurance that their obligations have been met.

Ward Williams can offer you a service that meets your particular requirements, one that ranges from providing you with a secure off-site Real Time Information payroll function, through to managing your entire accounts function from our offices. You will also benefit from the knowledge that your records are always up-to-date, providing you with timely results for management to make quick and informed decisions.

Registering with the Tax Authorities

It is important to register your new business with the appropriate department at HM Revenue & Customs (HMRC) as soon as you start trading:

HMRC - Tax Office:

In all cases you must notify HMRC about your new business (www.gov.uk/gds/online/new.htm).

You can let HMRC know that you are self employed by registering online for business taxes. When you set up a new company or organisation that is liable for Corporation Tax you must tell HMRC when it starts to trade within three months of starting business activity.

A PAYE (Pay As You Earn Scheme) and an auto-enrolment pension scheme needs to be set up if you are to be an employer. Ward Williams can assist with these so you meet your obligations.

HMRC - NI Contributions Office:

Depending on the level of profit, sole traders and partners have a liability to Class 2 NIC (to be abolished from 2018). If your profits are low, you may qualify for a Small Earnings Exception from

VAT

VAT is a tax chargeable on taxable supplies made in the UK by taxable persons. Credit is given for VAT paid to other businesses and the net balance is payable or reclaimable - normally on a quarterly basis.

A taxable person is defined as one of the following carrying on a business:

- An individual.
- A partnership.
- An unincorporated association, e.g. trust or charity.
- A limited company.

VAT law covers all types of supply of goods or services (outputs), whether of a revenue or capital nature. Supplies include sale, hire, or loan of goods. Output normally falls into four categories:

- Standard and lower rated - taxable at 20% or 5%.
- Zero rated - including socially or economically important items, e.g. exports, most food items, books, newspapers, public transport, drugs on prescription, children's clothing.
- Exempt supplies - including necessities such as insurance, postage, finance, education, and health.
- Some receipts are outside VAT's scope e.g. dividends, compensation for losses, non UK supplies.

Credit for input tax

Input tax paid on purchases can be recovered by registered taxable persons, who are able to offset input tax against their output tax liabilities. Traders with fully exempt outputs cannot register or reclaim any input tax. Credit is available for all VAT paid on inputs where a VAT invoice is available, except for tax on private expenditure, business entertainment, motor cars, certain building materials, and goods bought under a second-hand goods scheme. Recovery of input tax may be restricted if the business makes both taxable and exempt supplies.

Should I be registered for VAT?

You should notify HMRC when:

- Turnover for the past twelve months exceeds £83,000 (as at March 2016 and is normally indexed annually) .
- There are reasonable grounds for believing that your turnover for the next 30 days will exceed the VAT threshold.

In the first case, notification must be within 30 days of the end of the relevant months. In the latter case, notification must be within 30 days of the date on which grounds first existed. It is important to monitor turnover because there is a penalty for late registration. This is in addition to the tax payable.

It is possible to register voluntarily provided you have a *bona fide* business.

Ward Williams can advise on all areas of VAT: tax invoices, deadlines for VAT returns, payment and when you can/must de-register. We can review the best VAT scheme, for example Flat Rate VAT could simplify your VAT and save you tax if your pre-VAT turnover is not more than £150,000 a year.

Choice of year end

Which accounting year should you choose? This could depend on seasonality of trade, whether increasing profits or even short-term losses are envisaged. After discussing your business with you, we can advise what is best for your circumstances.



Annual Filing Dates

Annual Events	
31 May	To provide P60s to employees
6 July	Submission of form P11D
19 July	Payment of Class 1A NIC
	Corporation tax due 9 months and 1 day after the end of the accounting period
	Corporation tax return due 12 months after the end of the accounting period
Quarterly events	
14 April	Forms CT61 to be submitted – tax deducted/received on interest payments
14 July	
14 October	
14 January	
Quarterly	VAT returns (although these can be monthly)
Monthly events	
22 nd	Payroll—Electronic Payment of payroll taxes and filing of monthly EPS Reports

Unincorporated or Incorporated

It is important to consider carefully, when running a business, whether it is best to trade as a:

- Sole trader – an individual.
- Partnership – two or more individuals or companies.
- Limited liability partnership; or
- Limited company - completely separate legal entity subject to two main areas of regulation: tax and company law.

Tax on staff or directors' remuneration paid monthly is payable by the 22nd of the following month and Real Time Information (RTI) returns need to be filed promptly on a monthly basis. Corporation Tax is payable nine months and one day after the end of a company's accounting period. For a sole trader or partnership, tax is generally paid in installments on 31 January and 31 July on the current year basis.

Should I form a limited company?

In the early years of a business, the simplicity of operating as a sole trader or partnership might be a more attractive option, with fewer accountancy and statutory burdens compared to operating in an incorporated environment. However every situation has to be assessed independently and there are several factors to consider:

- The type and activity of the proposed business and its expected growth rate.
- The degree of commercial risk.
- Administrative obligations.
- Personal preferences, pensions and retirement.
- Taxation matters.



Possible advantages of incorporation

- Incorporation normally provides limited liability. If a shareholder has paid fully for his or her shares, he or she cannot normally be required to invest any more in the company. Although companies with bank borrowings often have to provide directors' personal guarantees, the protection of limited liability will generally apply in respect of liabilities to other creditors.
- A company enjoys legal continuity - it can own property.
- Effective ownership or part ownership of the business may be readily transferred, subject to the provisions of the Articles of Association.
- Normally a bank can take extra security by means of a 'floating charge' over the assets of the company, and this will increase the amount that can be borrowed compared with a sole trader or partnership.
- Shareholders can be paid in dividends (free of NICs) subject to company law formalities.
- The National Minimum Wage does not apply to directors unless they have a Contract of Employment.
- Growing businesses can re-invest profits after an overall tax charge of 20% (if profits are below £300,000), compared with at least 42% for higher-rate tax-paying sole traders and partners.
- Accumulated funds can be withdrawn on a sale of shares with the benefit of Capital Gains Tax Entrepreneurs' relief, subject to satisfying qualifying conditions.
- Access to tax reliefs such as Research and Development (R&D), Patent Box (PB), the Enterprise Investment Scheme (EIS) and Seed Investment Scheme (SEIS). R&D provides additional tax deduction, and a lower corporation tax rate. EIS is designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies. SEIS offers more generous tax reliefs to investors in potentially risky early-stage companies. In addition to a 50% income tax reduction, there is an exemption from CGT for gains realised on any asset on a £ for £ basis where the gains are invested in SEIS.
- Corporate status is sometimes considered to add to the credibility or commercial respectability.
- Employees may, with adequate safeguards, be offered an opportunity to buy their own stake in the business, reflecting their commitment and importance to the company.

Potential disadvantages of incorporation

- Formation of a company incurs legal and administrative costs. This may include new accounting records and possibly systems, a new PAYE system, new VAT registration, new stationery etc.
- Annual Accounts must comply with the requirements of the Companies Act 2006. In most cases, a statutory audit is not required for small companies where at least two out of three of the following criteria apply: (i) annual turnover is not more than £10.2 million (ii) gross assets are not more than £5.1 million and (iii) there are less than 50 employees. If an audit were required then this would mean additional work and increased professional fees.
- A company's accounts must be filed on with the Registrar of Companies, albeit with limited disclosures. An Annual Return must also be submitted to Companies House, together with a filing fee. This is confirmation of certain statutory details.

- The company will be taxed on its profits of each accounting period, as opposed to the income tax 'current year' basis for sole traders and partnerships.
- A company must annually file a company tax return.
- Both the company and its directors are liable to NIC on many benefits in kind, and a form P11D must be prepared for each director, regardless of the level of earnings. This can lead to extra work in filing a tax claim for reimbursed expenses etc.
- The 'IR35' legislation relating to personal service companies could be relevant, especially for agency placed workers in the government sector. A business entity review is recommended. We can advise you about this.
- An individual has greater flexibility in dealing with trading losses and only small unincorporated businesses are able to opt for a cash basis and flat rates for certain expenses.

We recommend that professional advice is sought before any business structure is set up to avoid potentially costly changes later on.

Key sources of qualified business advice for SMEs:

- ICAEW Business Advice Service (BAS) : Members offer an initial consultation at no charge to businesses and start-ups. Visit: www.businessadvice.service.com (Ward Williams are members).
- Free Advice for small businesses including links to access finance: www.smallbusiness.co.uk and www.startupdonut.co.uk.
Ward Williams have links with high street banks and other potential sources of financing.

The Next Step

When you start your own business a chartered accountant can provide the expertise to ensure that you avoid many of the accounting and taxation errors that can easily arise without the correct advice. This expertise can provide a firm financial base to realise a successful business.

Ward Williams Chartered Accountants is fully supported by other divisions within the Ward Williams group: Ward Williams HR and Ward Williams Financial Services. We look forward to hearing from you.

Information for users:

This guide is designed to provide information to readers. Whilst we have taken great care to ensure its accuracy, the information contained may not be comprehensive, and you are strongly recommended to seek professional advice from ourselves before taking any action based on the information. Ward Williams accepts no responsibility for any loss arising from any action taken or not taken by anyone using this guide.

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