



Chartered Accountants, Registered Auditors & Chartered Tax Advisers



KEY GUIDE

Setting up a new business



Introduction

Some of the decisions and actions that you take when starting a business can have significant effects for some time. The foundations put in place at the outset are very important and can affect its survival. With careful planning and good advice, starting your own business may prove to be one of the best steps you ever take.

You have a business idea, but can you turn it into a viable enterprise? Is there a market for the goods you will produce or the services you will supply, and customers who will pay enough for them so that you can make a profit? Can you compete with others in the same line? Will you need finance?

First you need to research and develop your business idea, and review the market for it. Market research can be as basic as asking your friends and colleagues what they think or as sophisticated as employing a market research agency. You might be able to test your product or service on a small scale.

Your business plan

The next stage is to prepare a business plan. This should describe the business, its objectives, its strategies and its financial forecasts. The business plan should include:

- An executive summary. This is an overview of the business you want to start and will give lenders the all-important first impression of your ideas.
- A description of the business – what you plan to sell, why customers will buy your product (or products) and how you plan to develop.
- Your marketing and sales strategy.
- Your management team and personnel.
- Your operations – premises and facilities, book-keeping and management information systems.
- Financial projections – pricing and costs, sales and profit forecasts, how much capital you will need and projected cashflow statements for three to five years.

Finance and grants

Your business plan should tell you how much finance you will need. There are several possible sources of finance, with a variety of pros and cons. The main ones are:

- Your own savings.
- Loans from friends and family.
- A bank overdraft.
- Bank business loans.



Focus point

Every business should have a business plan but it is especially important at the beginning. It is essential if your business will need external funding, but equally importantly it will allow you to measure how well your business is doing.

- Specialist loans, such as loans from the Prince's Trust for young people.
- Commercial mortgages – useful if you are buying property.
- Grants from government, the European Union, Regional Development Agencies, local authorities and other sources.

The Enterprise Finance Guarantee Scheme guarantees loans from the banks and other financial institutions for small firms that have viable business proposals but who have tried and failed to get a conventional loan because of lack of security. If your business will be set up as a limited company, you might find individuals prepared to invest by buying your shares. Investors could be friends and family, or business angels. These are individuals who invest in small to medium size businesses with high growth prospects. They may be attracted by tax relief under the enterprise investment scheme (EIS) or seed enterprise investment scheme (SEIS).

Business entity

You must decide whether to set up your business as a sole trader, partnership or limited company. Many start-ups are as a sole trader. This is usually the most flexible but you may pay more tax. Where two or more people are in business together, a partnership may be preferable. Partners need to be sure they can work happily together.

A limited company has several benefits but also some disadvantages. You may pay less tax and find it easier to raise finance, but there is more administration involved and anyone can look at your financial statements, at least in an abbreviated form. Sometimes it is best to start off as a sole trader or partnership and incorporate later. This can be beneficial if you expect your business to take a while to become profitable.



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Premises and equipment

You want premises that enable you to operate effectively but without any unnecessary costs. You also need to consider the future – you don't want to be tied to premises that might be unsuitable when your business grows. The main choices are:

- Working from home – suitable for a small office.
- Renting. This usually has minimum upfront costs and your rent is a tax-deductible expense.
- Buying outright or taking a long lease.

Tax relief for buying equipment is given by 'capital allowances', which either give relief in the year of purchase or spread it over several years. Sometimes enhanced capital allowances are available. The annual investment allowance gives 100% tax relief on expenditure of up to £25,000 on plant and equipment (not cars). Writing down allowances give relief at 18% or 8% on other capital expenditure. Alternatively you can lease the equipment you need, which can be more tax-efficient. There are

also many other issues to consider. You may be asked to give a personal guarantee if you are renting property or even leasing equipment.

Tax and national insurance

If you are in business as a sole trader or partnership, you will need to register with HM Revenue & Customs (HMRC) as soon as you start working for yourself. Registration will also trigger payment of class 2 national insurance contributions (NIC), which gives entitlement to the basic state pension and some other benefits. HMRC is normally aware of new limited companies and will contact you.

VAT

You must normally register for VAT if your sales exceed the registration threshold, currently £77,000. Sometimes it is a good idea to register for VAT even if your turnover is below the threshold, so that you can recover VAT charged to you.

There are some special schemes for small businesses, such as cash accounting and the flat rate scheme, as well as schemes for retailers and some other types of business. Choosing the right scheme can simplify your VAT administration and sometimes produce savings.

Taking on employees

You might start off doing everything yourself, but when your business grows you will need to employ staff.

Employers must deduct tax and national insurance from employees' pay under PAYE. You will have to register with HMRC as an employer and set up an efficient payroll system which, from April 2013, reports information online to HMRC whenever you pay your employees. There are additional rules for taking on subcontractors in the construction industry.



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Here are some other issues to consider:

- Recruitment, management and motivation of staff.
- Training and improving staff performance.
- Creating a written statement of terms of employment.
- Equal opportunities.
- The national minimum wage and employee rights.
- Employer's liability insurance.
- Health and safety.
- Pension arrangements, including automatic enrolment.

Financial controls

Good accounting systems will enable you to see how your business is doing. Budget and make plans, control cash flow and try to anticipate any problems before they materialise. You should control stocks of goods and work in progress, and ensure timely debt collection.

How we can help

We have helped many new businesses start up and grow. We can advise you on all the matters mentioned in this briefing and many other issues that you might encounter at any time in the life of your business.

We can keep you aware of changes in regulations affecting businesses and smooth your dealings with HMRC.

While our aim is to help you steer clear of the hazards of business life, if you do encounter them, we can provide expert help.

This guide is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking any action on the basis of the contents of this publication. This guide represents our understanding of law and HM Revenue & Customs practice as at October 2012.



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