

BEST4BUSINESS
ACCOUNTANTS & COMPANY

BUSINESS STARTER PACK
2019/20

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Introduction

Running your own business is often an appealing prospect for a number of good reasons — the freedom to choose, the flexibility in what you do and where you work, the potential rewards, creating value and receiving the benefit directly for your work are a few of the good reasons many take the step.

Whatever the reasons, a long journey lies ahead with a lot of decision-making on your part. Time spent initially in thinking through and contemplating your plans will help reduce the risk of failure. This pack is intended to help you during this initial period especially if this is your first time. We have endeavoured to raise the key issues that will require decision-making on your part, and to provide information that will help you weigh-up the best options for you and your new business.

Think carefully about ceasing to be someone else's employee. Certainty of income, both in terms of quantity and regularity will very likely disappear, whilst fixed outgoings such as mortgage repayments, will remain. Similarly, other benefits of employment may be lost, such as life cover, company pension, medical insurance, company car, fixed or regular hours and holidays.

Consider also the views of your family and friends as their support is essential. It is important that they understand the administrative and financial requirements of running a business can be time-consuming and stressful.

Success in business depends on many factors; most important is the need to critically review all aspects of the business proposition before progressing too far. You must have a commercially-viable idea to begin with of course. You will need to have properly researched the market you intend to sell into — is there enough custom given your pricing and cost structure to enable your business to achieve profitability, and can it survive until you get there? Finally, you need to be honest about the type of person you are — to succeed in business you will need to have determination, the tenacity to keep going when times are tough, and the self-discipline needed to work hard with no-one but yourself to motivate you.

Please note that this pack highlights many of the practical points that require your consideration before you start trading. It cannot cater for every possibility and your decisions should be supported by appropriate professional advice.

Selecting Professional Advisers

Starting your own business requires a lot of decision-making; this can seem overwhelming unless you have the right support within your team. In order to maximise the chances of success every new business should equip itself with every tool at its disposal.

One of the most cost-effective tools you can utilise is the expertise of a professional. The right accountant or solicitor can eliminate a host of problems and potentially-costly errors you might make as you start building the foundations of your new enterprise.

You want to succeed — and you can. By taking the time to make key decisions and enlisting the right team members you will maximise your chances of success. We wish you every success and welcome you to the exciting world of free enterprise.

This pack is published for information purposes only. It provides an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice beforehand. No responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this document can be accepted by the authors.

Selecting the Right Legal Entity

One of the first important decisions you will have to make as you start your new business is the form of legal entity it will take. To a large degree this decision may be dictated by the way you have planned for your business, whether you intend to work on your own or in conjunction with others. The form of entity you choose can have a significant impact on the way you are protected under the law and the way you are affected by taxation rules and regulations. There are three basic forms of business organisation, with each having its own benefits and drawbacks, and treated differently for legal and tax purposes.

Business Structure – The Pros and Cons

Whichever structure you choose, the protection of shareholder or partnership agreements should be carefully considered, and professional advice sought.

Company	Sole Trader/Partnership	Limited Liability Partnership (LLP)
A company must be formally incorporated with a written constitution in the form of a Memorandum and Articles of Association. There is an initial set-up cost.	There are no formation costs, but for partnerships a written agreement is advised.	Must be registered at Companies House, so higher formation costs than a traditional partnership. A formal members agreement is also advised.
Companies are governed by the Companies Act 2006. In overview, a company must: <ul style="list-style-type: none"> · Keep accounting records · Unless exempted, produce audited accounts · File documents annually at Companies House · Keep statutory books. 	Although sole traders and partnerships are not specifically required by law to have annual accounts nor to file accounts for inspection, annual accounts are necessary for the preparation and submission of tax returns.	The LLP Act requires LLPs to file accounts and an Annual Return at Companies House. Unless exempted an audit is required.
Typically the owners or shareholders are protected from the liabilities of the business.	Sole traders and partnerships are responsible for the liabilities of the business (i.e. there is no 'limited liability').	In theory, the liability of members is limited but this has not been tested in the courts.
Companies can have greater borrowing potential; they can use current assets as security by creating a floating charge. When a company is relatively new however, and hasn't yet achieved a good credit score of its own, banks and other financial institutions are likely to prefer offering any lending to the individual(s) behind the business rather than the business itself.	Sole traders and partners are unrestricted in the amount and purpose of any borrowings. Banks and other financial institutions will effectively be lending directly to the individual(s) behind the business in any case and so will rely on the credit score of the sole trader or partners — in due course a successful track record for the business will be of benefit although the individual(s) behind the business will always be held directly accountable for all borrowings.	Tend not to benefit from the greater borrowing potential of companies.

Business Structure – The Pros and Cons

Company	Sole Trader/Partnership	Limited Liability Partnership (LLP)
Shares in a company are generally transferable. Ownership may change without directly affecting the business itself.	Transferring ownership of an unincorporated business is not as straightforward as for a company — a sole trader can become a partnership, and a partnership can admit new partners. There is however greater flexibility in respect of profit shares than for a company.	As with traditional partnerships, it is generally difficult to dispose of 'parts' of the business. Greater flexibility in respect of profit shares than a company.
Incorporation does not guarantee credibility or respectability but will often give the impression of a 'real' business right away (VAT registration may further this view). For the directors there may also be a feeling of status attached to directorship.	An unincorporated business is not likely to offer the same prestigious feeling as for a company, especially when newly set-up, although again VAT registration will help improve its 'image'.	LLPs are relatively new. It is unlikely that they yet carry the same prestige as companies, but the additional registration requirements may offer reassurance to third parties.
A degree of tax planning is viable with a Limited company. Tax is payable on directors' remuneration like a normal employee via PAYE. Typically personal tax is payable by shareholders on dividends received over £2,000. Corporation Tax is payable 9 months after the year-end for small companies.	For a sole trader or partnership, tax is generally paid by instalments on the 31 January in the tax year and the 31 July following the tax year, with any final balance due the following January.	Members of an LLP have the same payment dates as a traditional partnership.
Losses in a company can only be carried forward (or carried back) to set against future (past) profits of the same trade.	Losses generated by a sole trader or a partner can be set against other income of the year carried forward or carried back to prior years.	Relief for trading losses is restricted to the amount of capital subscribed.
The rate of Corporation Tax is set or confirmed by government annually — it is calculated on a company's taxable profits.	Profits are taxed at 40% on taxable income in excess of £50,000 and 45% if income exceeds £150,000 (2019/20).	Profits are taxed at 40% on each member's taxable income in excess of £50,000 and 45% if income exceeds £150,000 (2019/20).
There is both employers' and employees' National Insurance payable on directors' salaries and bonuses; the NI charge is greater than that paid by sole traders and partners.	A partner/sole trader will pay Class 2 NI of £3.00 p.w. and Class 4 NI dependent on the level of profits.	A partner will pay Class 2 NI of £3.00 p.w. and Class 4 NI dependent on the level of profits.

Accounting and Bookkeeping

Most operators of a new and growing business have a flair for the environment in which the business operates. They may be a great salesperson, an outstanding mechanic, carpenter, solicitor, or inventor. Unfortunately, most people don't like to keep the books.

As an owner of a business you must remember that your company's books and financial statements represent a score sheet which tells how you are progressing, as well as an early warning system which lets you know when and why the business may be going amiss. Financial statements and the underlying records will provide the basis for many decisions made by outsiders such as banks, landlords, potential investors, and trade creditors as well as taxing authorities and other governing bodies. The necessity for good, well-organised financial records cannot be over-emphasised. One of the greatest mistakes made by owners of small businesses is not keeping good financial records and making improper or poor business decisions based on inadequate information.

Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. Far too often owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them.

An accounting or bookkeeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run it (or supervise the bookkeeper). Questions you should ask in developing an accounting and financial reporting system are:

- 1. Who will be the users of the financial information?**
- 2. What questions do I need answered to manage the business?**
- 3. What questions should be answered for HM Revenue & Customs?**

As your business grows, you should work closely with your accountant to ensure that your accounting system is providing you with appropriate information.

Chart of Accounts

The basic road map into any accounting system is the chart of accounts. It is this chart that helps establish the information that will be captured by your accounting system, and what information will subsequently be readily retrievable by the system. This tool, like the rest of the accounting systems, needs to be dynamic and should grow as the size and needs of your business changes.

Accounting Records and Record-keeping

Another question that the owner of a business must answer is "Who will keep the books of the business?" Will you do it yourself, will the receptionist or a secretary double as a part-time bookkeeper, will you have a bookkeeper that comes in periodically, will you outsource, or will the volume of activity be such that a full-time bookkeeper will be required? Very often the owners of a business decide to keep the books themselves and underestimate the commitment they have made to other phases of the operation and the time required to maintain a good set of financial records and books of account. As a consequence, the record-keeping is often low priority and must be caught up later. This approach, though rarely planned, can require a substantial expenditure of time and money. While it is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise, this can be achieved by maintaining close control over the cheque-signing function and scrutinising certain records. Your company's accountant can help develop a good programme of record-keeping duties for you, your employees and any outside bookkeepers or accountants you may engage.

Internal Control

What is internal control? It is the system of checks and balances within a business enterprise that helps to ensure that the company's assets are properly safeguarded and that the financial information produced by the company is accurate and reliable. When you are operating as a 'one man shop' or at least handling all of the company's financial transactions, maintaining good internal accounting control is relatively straightforward.

However, when your company grows to the size where you must delegate some of the functions, it becomes more difficult to ensure that all the transactions are being accounted for properly.

No matter the size of your business, you should always be able to answer "YES" to the following questions:

- 1. When my company provides goods or services to our customers, am I sure that the sale is recorded and the debt is recorded in accounts receivable or the cash is collected?**
- 2. When cash is expended by my company, am I sure we received goods or services?**

The method used to ensure that these two questions can be answered affirmatively will be widely varied. They are essential stepping-stones to maintaining good control in your business. The solution in your particular instance may be as simple as numbering the sales tickets and being sure all tickets are accounted for or reviewing all invoices and timecards before signing company cheques. These are fundamentals in a well-run business.

No matter what the size of your enterprise, you should consider controlling your business and safeguarding hard earned assets as a priority from the outset.

Choosing your Computer and Accounting System

The choice of computer and accounting systems is very specific to the individuals needs and requirements.

Specialist advice should be sought in respect of:

- **hardware**
- **printers**
- **software**
- **suppliers**

Whether your business needs a network of computers, the planning and implementation of computer and accounting systems must be carefully considered. Some questions you will need to ask:

- **What type of management information will I require?**
- **Will the system be able to support and record my business activity and transactions?**
- **Will my staff be adequately trained with back-up and support available?**
- **What level of security do I need?**
- **What can I afford to spend?**

Registering with the Tax Authorities

A significant task for the new business owner is ensuring that the business is properly complying with the extensive tax and information filing requirements imposed by the various authorities. Problems and penalties could arise if the new business is not registered with the appropriate tax authorities in a timely fashion.

While this section is not intended to be an all-inclusive list of filing requirements, it summarises some of the more prominent requirements common to most businesses.

- **HM Revenue & Customs NI Contributions Office**
- **HM Revenue & Customs**
- **VAT**

Depending on the level of profit, sole traders and partners have a liability to Class 2 NIC, payable with your income tax liability. Class 2 contributions are at a weekly level of £3.00 (where annual earnings are £6,365 or more for 2019/20) and you are required to complete various NI contributions questions when you register online. It is a requirement to notify HM Revenue & Customs of your existence by completing an online registration form. The form notifies HM Revenue & Customs of your accounting date, your accountant, and also enables a PAYE (Pay As You Earn Scheme) to be set up, which is a requirement if you are to be an employer.

If you fail to register within the first three full months of commencing business a penalty of £100 may be levied. You should consider whether it is necessary to be VAT registered from the outset. If not, you may wish to consider registering for VAT voluntarily, so that VAT incurred on business expenditure can be reclaimed. VAT registration applications can be submitted online via HM Revenue & Customs website or in hardcopy using form VAT 1. The application process can take several weeks in some cases, so it is advisable to submit the application as early as possible. Further details are provided in the 'Value Added Tax' section below.

Value Added Tax

VAT is a tax on goods and services supplied by VAT registered businesses in the UK. In most cases, VAT is chargeable at the 20% standard rate, but certain goods and services are liable to 5% reduced rate or 0% zero rate VAT. Some goods and services are VAT exempt. It is important to establish the correct VAT treatment of the goods and services to be supplied by the business, at the outset, to avoid the risk of penalties for errors.

The VAT charged to customers must be declared to HM Revenue & Customs on VAT returns, which are usually submitted quarterly. VAT incurred on business expenditure can usually be reclaimed on the VAT returns. The net VAT liability (VAT on sales less VAT on purchases) is payable to HM Revenue & Customs.

Registration

There are three different types of registration — intending, voluntary and compulsory:

A) Intending

A business which has not made any supplies, but intends to do so, can apply for VAT registration. The business must complete a VAT registration application (either online or using form VAT 1) and provide HM Revenue & Customs with acceptable evidence that it is a business that will make taxable supplies in the future. The benefit of this type of VAT registration is that it allows VAT incurred on start-up costs to be reclaimed, subject to the normal rules.

B) Voluntary

It is possible to register for VAT on a voluntary basis, even though the value of taxable supplies has not exceeded the registration threshold. This is normally only beneficial where the majority of supplies are made to VAT registered customers or where supplies are zero rated. The benefit of this type of VAT registration is that VAT incurred on business expenditure can be reclaimed, subject to certain conditions.

C) Compulsory

A business which makes taxable supplies must register for VAT if the value of its taxable supplies:

- i. exceeds the VAT registration threshold in any 12 month period; or
- ii. is expected to exceed the VAT registration threshold in the next 30 days alone.

The VAT registration threshold for businesses established in the UK is £85,000 (as at 1 April 2019). For businesses not established in the UK, the registration threshold is nil.

The business must notify HM Revenue & Customs of the liability to register within 30 days of exceeding the threshold.

Taxable Persons

It should always be remembered that it is a person that is registered for VAT and not a business. If a person has two separate businesses, then that person will be required to be registered for VAT and account for VAT at the appropriate rate if the total supplies exceed £85,000.

Taxable Supplies

Taxable supplies are all supplies made by a business either to a third-party or to the trader himself (goods for own use), which are not exempt supplies.

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

VAT Rates

There are three rates of VAT:

- standard = 20%
- reduced = 5% for certain supplies of fuel and power, sanitary goods and certain construction services
- zero = 0%

Output VAT

Any VAT charged by the business, whether at 20% or 5% is known as output VAT and the total charged or collected in the VAT quarter is payable to HM Revenue & Customs.

Input VAT

Input VAT is the VAT that you are charged on your business purchases and expenses and is normally recoverable in full by a business which only makes standard, reduced or zero-rated supplies. Input VAT on costs used to make exempt supplies is not normally reclaimable.

To reclaim input VAT, the business must hold evidence that it has received a taxable supply, which normally means a VAT invoice from the supplier, showing details such as the supplier's VAT number and the amount of VAT charged.

VAT Returns and Payments

The amount of VAT actually payable to HM Revenue & Customs is the output tax charged to customers, less the recoverable VAT charged by your suppliers. These amounts must be declared by submitting VAT returns online to HM Revenue & Customs, usually covering a three month period. Usually, VAT returns must be submitted within one month and seven days after the end of the VAT return period.

VAT payments must be made electronically and received by HM Revenue & Customs, as cleared funds, no later than the VAT return due date (see above). If regular refunds are expected, monthly VAT returns can be applied for in order to benefit cash flow.

Penalties

There are three penalties which every business should be aware of:

- a. Late registration penalty for failing to register for VAT at the correct time.
- b. Default surcharge for businesses that are persistently late in either submitting VAT returns and/or making payment of the liability due.
- c. Penalties for errors on VAT returns.

Payroll Taxes and Employing Staff

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

Do you have Employees?

Whether an individual is an employee or not is a question of fact, depending on the terms on which he/she works. The question of whether an individual is employed or self-employed is very important for the business 'employing' him or her, as that business has to comply with the reporting requirements.

In certain areas, HM Revenue & Customs has placed emphasis on reclassifying individuals claiming to be self-employed. Further information is available on the HMRC website, but this is a complex area and we recommend that professional advice is sought.

The Operation of a PAYE Scheme

Upon registering, you will receive a letter containing your employer PAYE reference and links to the HMRC website where you can download all the forms and information you will need to operate PAYE, NIC, statutory sick pay, statutory maternity and paternity pay, and statutory adoption pay.

You will need to familiarise yourself with the following forms:

- **P11**
Deduction working sheet
- **Starter Checklist**
To be completed by all new employees including those who have a P45 from previous employers
- **P46 (car)**
Notification of a car provided for the private use of an employee or a director
- **P45**
Details of employee leaving
- **P14/P60**
End of year return and employer's certificate
- **P11D**
Expenses and benefits
- **P9D**
Expenses payments and income from which tax cannot be deducted.

Real Time Information (RTI) was introduced in April 2013, which resulted in significant changes in the payroll process. We would recommend seeking professional advice on the operation of your payroll.

The tax and National Insurance should be paid to HM Revenue & Customs by the 19th of the month (22nd if paying electronically) following that in which the salaries were paid.

The Construction Industry Scheme

If you are a contractor or subcontractor working in the construction industry, you will need to consider the requirements of the CIS scheme which came into force from 6th April 2007. Under the scheme, all payments made by contractors to subcontractors must consider the tax status of the subcontractor and there is likely to be a requirement to deduct tax from some payments before they are made and pay this tax over to HM Revenue & Customs. Subcontractors will need to register with HMRC and can apply to be paid without deduction of tax if they meet certain qualifying criteria.

Taxable Benefits

In most businesses, the directors and often the employees, have benefits that are not immediately taxed through the PAYE system, the most usual being the provision of a car and possibly fuel for both business and private mileage. Class 1A National Insurance is due on the taxable value of these benefits in kind, and are due on the 19 July following the tax year in which the benefits are made available. In addition, HM Revenue & Customs requires on an annual basis, a form P11D (Return of Expenses Payments and Benefits) for all directors irrespective of income and all employees who have received such benefits.

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

Employing your Staff

You will need to set up employment contracts for your employees, making sure that they include all the essential elements. It is worth researching this and you should take legal advice from an appropriately qualified employment law expert. The main purpose of the contract is to define the working practices and obligations to the individual you are employing and their obligations and responsibilities to you. This should ensure that they are clear of their terms of employment.

Here are some key things you will need to do with regard to paperwork:

- Clarify your own status and those who work for you e. g. self-employed, worker, employee, director or contractor.
- Set yourself up as an employer with HM Revenue & Customs.
- Comply with data protection legislation and follow set practices for information handling.
- Know how to make a job offer and carry out pre-employment checks.
- You should also consider whether you or your employee qualifies for:
 - Working Tax Credit.
 - Child Tax Credit.

Health and Safety

The importance of health and safety within your working environment is second to none, and every business has legal responsibilities to ensure the health and safety of their employees. Good practices in this regard will pay for themselves, as well as improving your reputation with staff, customers and the local community. Again, appropriate legal advice is advisable.

Income and Corporation Tax

The taxation legislation is extensive and can be confusing for an individual starting a business.

We have provided at the back of this Pack, some of the rates of tax and the reporting requirements.

It is however, important to take specific tax advice for your circumstances to ensure you are not suffering more tax than you are legally required to pay, and to ensure you are claiming the appropriate and correct rates of allowances to which you may be entitled, for example:

- Capital allowances
- Research and development reliefs
- Direct investment incentives.

Tax Returns

Companies

Companies are charged Corporation Tax at the rate applicable during the financial year (1 April–31 March). Where a company's accounting period spans two financial years the profits for the period are apportioned between the years.

From 1 April 2019, there is a single Corporation Tax rate of 19% applicable to all profits.

Under Corporation Tax Self-Assessment, a company is required to make an estimate of its own liability to Corporation Tax and pay that liability by the normal due date, nine months after the end of the accounting period, without an assessment being raised.

The company is required to send its completed tax return (form CT600), accounts and tax computation to the Inspector by the filing date, which is 12 months after the end of its accounting period. Penalties will be charged if it is late.

Once the company agrees its liability with the Inspector, there will be a settlement of any balance due or overpaid. Interest will be charged or paid from the normal due date on the balance.

Larger companies pay tax in quarterly instalments.

Sole Traders/Partnerships

Sole traders and partnerships (and income of members of a Limited Liability Partnership) are charged income tax at the rate applicable during the fiscal years (6 April–5 April).

The rates (after application of full personal allowance) are as follows:

2019/20 Rates

- **0% — Personal allowance**
— up to £12,500
- **20% — Basic**
— between £12,501 and £50,000
- **40% — Higher**
— between £50,001 and £150,000
- **45%**
Top-over £150,000

There may also be a liability to Class 2 and Class 4 National Insurance Contributions, depending on the level of profit in each fiscal year. Class 2 contributions are at a weekly stamp rate of £3.00 (2019/20). Class 4 NI is payable by the self-employed on profits.

Class 4 contributions are levied at 12% on profits between £8,632 and £50,000 (max) for 2019/20. There is a further 2% charge on profits in excess of the upper limit of £50,000.

For the self-employed and those that pay tax on other income such as rents, tax is normally payable in three instalments — the first two instalments are based on the tax paid on the previous year's business tax liability. Therefore half is paid by 31 January in the year of assessment, the other half by 31 July in the year following the year of assessment. The third instalment will be any balance due (payable the following 31 January) or any amount repayable by HM Revenue & Customs if your final liability is lower than the amounts paid on account.

Under self-assessment your income tax return, which encompasses your trading results, needs to be filed by 31 January following the tax assessment year if filed electronically. This date is brought forward to the end of September if you wish HM Revenue & Customs to calculate your tax liability. The 31 January deadline is brought forward to 31 October for paper returns.

Forecasting and Cash Planning

It has been said, "You would not undertake a long journey without a map or timetable." This is also how you should commence the long journey that is your new business. There are many factors that affect the ability of a new business to project their trading not just in the first fledgling years, but for many years after. Examples are:

Certainty of Sales

- Are contracts in place?
- Have orders been placed?
- Is it a retail operation?

Cash Collection

- Does the contract stipulate payment terms?
- Is it a cash business?
- Is factoring in place?

Expenditure Patterns

- Is there a production process?
- Are there regular salary costs?
- What are the payment terms?
- Is there a rent deposit and are rent/rates/service charges paid monthly or quarterly?

This list is by no means exhaustive but to ascertain the ultimate viability of your business and monitor its progress, these questions and many more have to be brought into the equation that manifests as your expected profit and cash flow for the period ahead.

Cash is King!

The lifeblood of any business is its ability to collect cash and pay bills as well as pay its employees, particularly its owners. Far too often small businesses are profitable, but they do not have enough operating capital to meet their current needs. Consequently, they may be forced to sell out to a stronger competitor, sell a portion of the company to investors at an undesirable price or close the doors and put the company out of business. None of these alternatives are typically what the owners intended when starting the business.

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

Cash flow projections can be very slow, time consuming and tedious to undertake. It is often very tempting to hire someone else to prepare the projections for you. There are a variety of individuals who can help you do this, but the critical factor is that they only help. You, as the owner and operator of the business, are the only one truly qualified to develop your cash flow projections.

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

Obtaining Credit and Financing for your Business

It may be that once you have completed your forecasted cash flow, you identify a need for some additional finance. In some instances, you may need to obtain capital for the initial expenses prior to opening your business or, for instance, the funds you require may be for expansion or working capital during the off season.

Generally business financing can take two forms, debt or equity. Debt, of course means borrowing money. The loans may come from family, friends, banks, other financial institutions or professional investors. Equity relates to selling an ownership interest in your business. Such a sale can take many forms such as the admitting of a partner or, if you are in a company, issuing of additional shares to investors. It is typically a prudent idea to consult with your accountant, as there are many significant legal ramifications to such a step.

Financing Alternatives

Whether you determine that debt or equity financing is the best choice for your company, there are a number of alternative types of financing available. Depending upon the nature of your business, the financing may be a combination of debt and equity and may be tailored to fit the specific needs of your company.

In the summary, we will only mention a few of the more conventional methods for a young company to obtain capital, though the possibilities are many. All these and other alternatives should be discussed in greater detail, in advance of the funding requirement.

Debt Financing Sources

1. Banks

The first source of funds, which typically comes to mind when borrowing money, is a bank, which is why they are in business. Banks typically lend to small businesses on a secured basis using equipment, stock or debtors. The more liquid and readily saleable the assets you have to offer as security, the more acceptable they are likely to be to a banker. Finance from a bank may take several forms such as:

- An overdraft limit which is reviewed annually and allows you to borrow up to a predetermined maximum as you need it and pay it back as funds from sales and receivables are collected.
- A short-term loan that is repayable on specified dates.
- A term loan may be used for the purchase of a specific asset such as a computer or a machine, or for taking the business to another level. Another example of this type of funding is a commercial mortgage.

As your relationship with your banker becomes better, and your business becomes established, you may consider a longer loan which will be payable in instalments.

2. Lease and Asset Based Financing

In today's business environment it is quite common to acquire equipment through lease agreements. Asset financing companies may be able to provide additional cash flow by providing finance against both new and second-hand assets.

3. Factoring and Invoice Discounting

This form of finance ensures that the turnover you achieve is more readily available as cash to your business. Working capital tied-up in your sales ledger (i.e. non-contractual debt) is therefore released that much faster. The factor and invoice discounter pay your business an advance on the turnover before it has actually been paid by your customer. Factoring and invoice discounting can be used in conjunction with, or as an alternative to bank overdraft or loan finance.

4. Trade Credit

A very important source of financing for your company may be from the creditors and suppliers with whom you do business. Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested. Establishing good relationships with trade creditors is essential because it allows you to use the goods and services in your operations and sell your product to your customers, in some instance before you pay for them.

5. Venture Capital Companies

A venture capital company or fund is typically a company that is in the business of taking risks. A venture capital fund is often backed by a group of investors that may be individuals or companies. The investors are often represented by a management group that evaluates potential investments and manages the existing investment portfolio.

The price of venture capital financing is usually very high when compared to borrowing money from a bank, but it must be remembered that venture capitalists are dealing with much higher risk situations than commercial banks will finance. This cost of venture capital is measured in terms of the portion of your company you must sell to obtain the level of financing you require.

6. Private Individuals

Very often, individuals who are successful in their own right and have accumulated substantial wealth may be looked to for investment in your business venture. Such individuals may believe that the success of your business may enhance theirs as well as help increase their personal wealth. These individuals, like a venture capital company, very often want to participate in the management activities of your firm and help guide your progress through representation on the Board of Directors. The business acumen and contacts of these individuals can often be a valuable asset for your business. An individual investor can often react to opportunity much quicker than a venture capital firm and typically has only his own interests to serve as opposed to a financial backer or group of limited partners.

Individual investors can be more flexible in the type of investment structure they can deal with and often have personal, financial and tax motivations to consider.

7. Yourself and your Staff

A cheaper and possibly more effective form of equity finance, can be either further introduction of capital by yourself (perhaps by a loan rather than future share purchase) or your employees. Passing shares to your employees, perhaps via a share option scheme, can have the added advantage of retaining and motivating existing key staff and or recruiting prospective employees.

Insurance

Business insurance, like many types of expenditure is one of those items that business owners typically do not like to pay. You must remember that sufficient insurance can be as critical to the success of your business as a good product or service.

Without proper insurance you could lose all of the money, time and effort you put into your company. The types and amounts of coverage you purchase must be evaluated on a cost-benefit basis like any other commodity that you purchase.

Your insurance agent can help you review the amount of coverage you may wish to purchase for various purposes. Usually, you will want to insure against risks that could have significant detrimental impact on your business. This normally would include such items as fire, storm damage, theft, general and product liability. Depending on the nature and size of your business it is often a good idea to self-insure for all or a portion of certain losses.

Self-insurance can be accomplished by not buying coverage for incidental risks or increasing the deductions on policies that you do buy. Often, raising the deductible can have a very favourable impact on policy premiums.

The administrative cost to the insurance company to process small claims is quite high, consequently the rates typically go down substantially if they are relieved of this expense by insuring for losses in excess of a sizeable deductible amount.

An insurance broker can provide you with comparative costs for various types of coverage with varying degrees of deductible amounts. Appropriate specialist advice should be taken.

Pension

Despite recent attempts of Pension Simplification, the rules remain very complex and this means appropriate specialist advice should be taken from an Independent Financial Adviser. Your accountant should be able to advise you on the tax implications of different options.

There are strict limits on the level of both employer and personal pension contributions that can be made in a tax year and we would recommend that you seek professional advice on this matter.

Tax Calendar

The following summarises some of the more significant filing dates for business.

Corporation Tax

14 January

Forms CT61 to be submitted — tax deducted/received on interest payments.

Payment

Payment of Corporation Tax (9 months after the end of the accounting period).

Submission

Submission of Corporation Tax return (12 months after the end of the accounting period).

VAT

Quarterly

VAT returns (although these can be monthly or annual).

PAYE

Payment**Monthly on 19th**

Payment of payroll taxes (under certain circumstances — quarterly).

Submission**31 May**

Issue P60's to employees.

6 July

Submission of form P11D.

19 July

Payment of Class 1A NIC.

Sole Traders and Partnerships

31 January

Balancing payment due for prior year's Income Tax and Class 4 NIC and first payment on account for current year's Income Tax and Class 4 NIC.

31 July

Second payment on account for Income Tax and Class 4 NIC.

For all individuals required to submit a Self-Assessment Tax Return, a deadline of 31 January applies for returns filed electronically. This deadline is brought forward to 31 October for the filing of paper returns.

Useful Names, Addresses and Telephone Numbers

Name	Website	Telephone No.
HM REVENUE & CUSTOMS		
	hmrc.gov.uk	
Self-Assessment Helpline		0300 200 3310
New Employer's Helpline		0300 200 3211
Subcontractors Helpline		0300 200 3210
Helpline for the Newly Self-Employed		0300 200 3500
Tax Credits		0345 300 3900
NATIONAL INSURANCE		
National Insurance Contributions Office		0300 200 3519
MISCELLANEOUS		
Companies House	companieshouse.gov.uk	0303 1234 500
British Franchise Association	thebfa.org	01235 820470
Central Office of Information	coi.gov.uk	

Conclusion

You now have a handy reference guide to starting a business. With it you should be able to successfully handle many of the problems encountered in starting and running a business. Always remember to seek professional advice in areas that you are not sure. The benefit will far outweigh the cost. Good luck!

To learn more about our business services, contact our marketing team to arrange a no-obligation, free consultation with one of our partners.

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