The Basics of Starting Up In Business

COTTONS LONDON
CHARTERED ACCOUNTANTS

WHAT WE'LL COVER TODAY

- When you need to register your business
- Sole Trader vs Limited Company – which structure is most suited to your business and the difference in tax regimes as well as legal considerations.
- Record keeping – the importance of good record keeping and what bookkeeping is
- Sales invoicing – creating invoices and getting paid
- Expenses – what costs can be claimed
- How to take money out of your company
- When to think about VAT registration
- Deadlines and submission requirements, when you need to complete your accounts
- Tax: some specialist areas such as R & D tax credits, video game tax relief and the Patent Box tax relief.

YOU NEED TO REGISTER WHEN:

- You are considered to be a trade. (But what's a trade?)
- You have costs and maybe income relating to your business.

NOTES

- You might make losses for a few years but this is still a trade.
- You should File accounts or complete a tax return in order to register any early losses for offset in the future once you make profit.

BUSINES TYPES

SOLE TRADER

A sole trader is the simplest form of business. It suits individuals in early stages

Easy to set up and only involves registering for personal tax with HMRC

Maintain accounting records

File a tax return each year

Tax return will show your profit for the year

Tax return covers the 6 April to 5 April and is filed by the end of the following January

If you have a profit this is taxed under personal tax

Tax free amount (£11,850)

LTD COMPANY

Limited companies have more filing requirements.

In addition to your personal tax return a set of company accounts and tax return is also needed.

Taxed differently to sole traders, once a reasonable level of profit is made this difference is significant.

Corporation tax of 19% is paid by the company

Limited companies offer a vehicle to receive investment in as new shares can be issued.

If anything was to go wrong it is very unlikely that you as an individual could by sued.

As a general rule if you make profit over £20k then Limited company is the way to go.

RECORD KEEPING

A Sales Log is a list of your sales invoices that you have issued to customers in date order.

A Purchase Log is a list of your expenses, categorised by type such as stock, travel, advertising.

NOTE: It is important to reconcile your bank account. This means matching up your bank transactions with either sales or purchases as they get paid.

If this is carried out within software such as Xero, you can then see a report of who owes you money and who you owe money to.

Record keeping is a legal requirement so does have to be done and you could be asked to show these records to HMRC.

However it can also mean that useful information such as your profit for the year so far can be shown to investors in the form of management accounts.

A stage beyond this would then be to prepare forecasts and projections to manage cashflow and show a funding institution how the money would be used.

You will need to open a Limited Company bank account. These days it is very easy to do so. You can set up a Limited Company bank account using Starling in 5 minutes

As a sole trader you can use a personal bank account but it is advisable to have one that is separate to your personal expenses.

Your company Name
Your company slogan

INVOICE

123 Chicago Ave
Chicago, IL, 32117
Phone: (417) 000 00 00, Fax: (417) 000 00 00

Invoice # 5647
Date: December 17th, 2009

Bill to:	Ship to:
[Name] [Company Name] [Street Address] [City, ST ZIP Code] [Phone]	[Name] [Company Name] [Street Address] [City, ST ZIP Code] [Phone]

SALESPERSON	P.O. NUMBER	REQUISITIONER	SHIPPED VIA	F.O.B. POINT	TERMS
					Due on receipt

QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
		SUBTOTAL	
		SALES TAX	
		SHIPPING & HANDLING	
		TOTAL due	

Make all checks payable to [Your Company Name]
If you have any questions concerning this invoice, contact [Name, phone, e-mail]

Thank you for your business!

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ALLOWABLE BUSINESS EXPENSES

Some costs that you may have incurred anyway can be put through your company to save tax.

- The company can provide a mobile phone for you.
- A laptop can be purchased by the company and you can also use personally.
- The company can pay into a pension on your behalf.

The above items do not attract a taxable benefit. Some further examples can be paid for through a company to incentivise staff.

- Health/life insurance
- Company car
- Gym memberships for your staff

As a general rule if you had to pay for something for business it will be allowable examples include

- Any advertising
- Any training
- Any travel

HOW TO GET YOUR MONEY OUT OF A COMPANY

- A limited company is legally different to a sole trader so how you take money out is different
- With a limited company, it is not your money until it is paid as salary or dividend!
- For owner managed companies with one shareholder there is a recognised, best method of extracting money;

- Process a salary to use the band of income before National Insurance begins. This means you get a state pension stamp. The company claims this salary as a business cost.
- Whatever is then left in the company after it has settled its debts and paid its tax can be extracted as a dividend.
- Dividends are taxed at a more favourable rate of 7.5% in the basic rate band.

- Things get a little more complicated once you are in the happy position of making profits in excess of £45k.
- You can still take all the money but will pay higher tax of 32.5% for dividends above the basic rate band.
- This is where a company can help because you can opt to shelter the money in the company and take in a future year when perhaps profits are lower.

A sole trader structure does not offer the same flexibility . All profit made is taxed in that year under whichever band it falls into.

WHEN TO THINK ABOUT VAT

- VAT registration is compulsory when your turnover reaches 85K in any 12 month period.
- You may opt to register early in order to recover VAT on your expenses.
- It is important to carefully track sales as HMRC do impose draconian fines and penalties if they catch a business which should have been VAT registered.
- Once registered a business will need to file VAT returns. These can be, monthly, annually or most common Quarterly.
- MTD will mean that keeping records on software is compulsory in the not too distant future.

TAX SPECIALIST AREAS

R & D Tax credits

- If you are undertaking a project which is intended to be a genuine advance in science/technology whether it works or not you may qualify for enhanced expenditure.
- Enhanced expenditure means that if you spend £100 on R & D you get a taxable deduction of £230
- You may surrender the enhanced expenditure for a payable tax credit of 14.5% however new rules mean this only really applies if you employ staff.

Video Game tax relief

- A specialist example of a tax credit, lots of others exist. With this particular relief you can claim an enhanced expenditure on your eea spending of 180% and could opt to surrender the 80% enhancement for a payable 25% tax credit.

Patent Box tax relief

- If you hold the patent to a product in a company that company can claim patent box relief meaning it pays just 10% tax on its profits from that patent.