

MHA MOORE AND SMALLEY

Small Business Guide

Starting up in Business



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 Offices in: Preston, Blackpool, East Midlands, Kendal, Kirkby Lonsdale, Lancaster, Liverpool, Manchester and Southport

Starting up in Business

It is the ambition of many people to run their own business. Some make the decision to start up in business to be more independent and obtain the full financial reward for their efforts. Others may have been made redundant and find themselves with free time and financial resources.

Whatever the reason, there are many opportunities but also some risks associated with starting up in business. The greatest concern is often the possibility of business failure.

This guide looks at some of the key areas for those starting in business to consider. However this is not a complete guide and any decisions should be supported by professional advice.

Considerations beforehand

In order to make your business a success there are a number of key factors which should be considered:

- Commitment - starting a business is demanding - determination and enthusiasm are essential.
- Skills - you will need managerial, financial, technical and marketing skills - if you do not have these skills personally, they can be found in a partner or employee, or acquired through training.
- Your product or service should have a proven or tested market, but must not conflict with the patent or rights of an existing business.

Qualities needed for success

To help you decide whether or not you are cut out for the enterprise culture, we have compiled a list of qualities required to be successful.

- Are you positive, decisive and enthusiastic to succeed?
- Proactive - do you go out to get things or do you let them come to you?
- Determined - have you clearly-defined personal and business goals?
- Hardworking - do you mind being tied to the business seven days a week?
- Leadership - are you able to get the best from your colleagues but discipline them when necessary?

- Opportunist - will you see openings in your market and develop products for it?
- Self-critical - are you able to review your own performance and welcome advice from others?
- Flexible - could you change your products or methods quickly when necessary?

Spending power

You must appreciate that when becoming self-employed you may lose the comfort of having a regular income. There may be times when you will have very positive cash flow but also times when money may be short. Therefore during times of shortage you must be prepared to do without some of the luxuries for both yourself and your family.

Making sure the family are with you

Starting a business is not easy and your family must both be on your side and also lend you support. Initially, especially in the early days, you could often find yourself away from your family for long, unsocialable hours. Their understanding can be invaluable.

This can be supported by getting your family involved in aspects of the business. There may be many jobs that can be easily delegated to them. It may also help with the financial aspect as they will learn to understand why there may be a tight control of the family finances.



Identifying your skills

You may be considering self-employment to exploit your talents. Running a business needs many skills. You should identify the things that you are good at and the aspects which you will require help with. You may wish to employ people with the necessary skills or, alternatively, consider contracting out certain tasks.

Researching your market

You must research as much as possible about the marketplace, your potential customers and competitors. It is vital to have knowledge of these areas when considering whether you have a potentially successful business proposition.

You may wish to use published material or ask people who are likely to buy from you, either directly or by market survey.

You will need to find out about:

- Your target market - its size and whether it is expanding or contracting.
- Your customers - who are they? Where are they? What do they want? How much will they pay?
- Your competitors - what are their products, prices and market share?

Name and Branding

Make sure you don't go for a name already in use. Remember that your name is going to form the basis of your brand so use one that is unique and immediately identifiable with your business. Companies House is a great place to check if there are any companies already trading with the name that you want, plus you need to check locally if there are any unincorporated businesses using the name that you would like.

The Business Plan and funding

Every business will have start up costs, no matter how small or large they are. Ensure that you thoroughly review the costs involved in starting up. These can vary from calculating the cost of a website or designing a logo to working out initial outlays for utilities, rent, rates, equipment and insurance costs for those with premises. Don't forget to include any wages you might need at the start before income has begun to come through. You might also need to buy stock up front, so it is important to also include this. Once you have the majority of the costs you need to decide how you will fund them.

The Business Plan is the key to success. If you need finance, no bank manager will lend money without a sensible plan.

Your plan should provide a thorough examination of the way in which the business will commence and develop. It should describe the business, product or service, market, mode of operation, capital requirements and projected financial results.

New businesses can find it incredibly hard to get funding from banks in the early days so make sure you have enough capital behind you to meet the initial costs.

You may also find that you qualify for other types of funding, such as Government Grants, third party lending or you may seek entrepreneurial investment.

Finance Matters

What Business Structure shall I use?

Having made the decision to be your own boss, it is important to decide the best legal and taxation structure for your enterprise. The most suitable structure for you will depend on your personal situation and your future plans. The decision you make will have repercussions on the way you are taxed, your exposure to creditors and other matters.

There are three common types of business structure:

Sole Trader

This is the simplest and cheapest way of trading. There are only a few formalities to trading this way, the most important of which is informing H M Customs and Revenue (HMRC).

You are required to prepare accounts each year and they will form the basis of how you pay your tax and National Insurance.

Any profits generated in this medium are automatically yours. The business of a sole trader is not distinguished from the proprietor's personal affairs so that if there are any debts, you are legally liable to pay them.

Partnership

A partnership is an extension of being a sole trader. Here, a group of two or more people will come together and pool their talents, clients and business contacts. This is done so that collectively they can build a more successful business than they would individually. The partners will agree to share the joint profits in pre-determined percentages. Partners are taxed in the same way as sole traders, but only on their own share of the partnership profits.

It is advisable to draw up a Partnership Agreement which sets the rules of how the partners will work together. There is no restriction on your exposure to business creditors. Indeed, you are 'jointly and severally' liable for the partnership debts. If certain partners are unable to pay their share of the partnership debts, those debts can then fall on the other partners.

Company

A Limited company is a separate legal entity from its owners. It can trade, own assets and incur liabilities in its own right. Your ownership of the company is recognised by owning shares in that company. If you also work for the company, you are both the owner and an employee. When a company generates profits, they are the company's property. Should you wish to extract money from the company, you must either pay yourself a dividend, as an owner, or a salary, as an employee. The advantage to you is that you can have a balance of these two to minimise your overall tax and National Insurance liability.

Companies themselves pay corporation tax on their profits after paying your salary but before your dividend distribution. Effective tax planning requires profits, salary and dividends to be considered together.

New companies can be purchased relatively cheaply in a ready-made form, but quite often it is more advantageous to form a more complex company from the outset, whereby the share capital is split into different 'classes' of shares which may have different rights attached to them. It is important, when the Limited company is formed, you consider the appropriate share structure as it may prove costly and complex to change at a later date.

There are many advantages as well as disadvantages to operating through a Limited company. There are additional administrative factors in running a company, such as statutory accounts preparation, company

secretarial obligations and PAYE (Pay as You Earn) procedures. A big advantage of owning a Limited company is that your personal liability is limited to the nominal share capital you have invested, unless you give personal guarantees/security etc.

Others structures

There are other business structures that may be considered, such as Limited Liability Partnerships and Community Interest Companies. Always seek advice before making a decision on what best suits you and the sector you will be working in.

Keeping records

You have to, by law, keep bookkeeping records for 6 years. Best practice is to keep them from day one and update weekly. We recommend computerised software is used as it will reduce the time taken and in the coming years HMRC will require all businesses to use computer software (Making Tax Digital). The data is stored in a user friendly way and your accountant can access the data and help you interpret the management information that it produces. If you use a computerised system then you are able to run profit and loss reports easily and quickly. This will only be applied if time and consideration has been taken in the set-up of the system.

Over the last few years cloud based software has become more popular, and will ultimately be the way most small businesses keep their records. Cloud based software is a great option for start up businesses as it is simple to use, relatively cheap and can grow with your business. Importantly no special equipment is needed and you can even run it from a tablet or phone.

In terms of keeping records you can either spend the time doing this yourself, employ a bookkeeper to keep things up to date or outsource to your accountant. All have varying costs attached. Clearly doing the bookkeeping yourself seems to be the cheapest method but this is not always the case. If you could generate income for your business when doing the bookkeeping then it might actually be more cost effective to get a bookkeeper or an accountant to do it.

It is really important to make sure that you keep up to date records. If you don't, you will pay a lot of money at the end of the year to an accountant to correct and rectify this.

The more up to date your bookkeeping system is, the more you will benefit. It's important to regularly review profit levels and check costs. This way you can make quick informed decisions to improve the profitability of the business. If your records are kept up to date, you can get your accountant to produce the annual accounts quickly and then get feedback on possible areas of the business that could be improved to expand your bottom line.

Accounts

The accounting records are used to produce the accounts. If the records are well kept it will be easier to put together the accounts. Accounts must be prepared for HMRC and if a company is formed there are strict legal requirements as to their format.

Accounts may also form the basis of how others view the business, i.e. banks for business lending, mortgage companies for personal lending, and for companies credit ratings.

A company may need to have an audit and will need to make the accounts public by filing them at Companies House within a strict time limit.

Taxation

When starting in business, taxation aspects must be considered. Some of the main areas include:

Taxation on trading and rental profits

The type and rate of taxation will depend on the form of business structure, income tax for sole traders/ partnerships and corporation tax for Limited companies.

HMRC are in the process of introducing 'Making Tax Digital'. This will affect every business and/or landlord in the next few years (where turnover/gross income is above £10,000) whereby there will be the requirement to keep records digitally on HMRC approved software and submit financial information quarterly.

National Insurance (NI)

The rates of NI contributions are generally lower for a sole trader or partnership than for a director of a company but the entitlements can also differ. In a company, it may be possible to develop a strategy to minimise NI costs.

Value Added Tax (VAT)

The VAT system is complex with penalties for breaches of the legislation. Ignorance is not an acceptable excuse for not complying with the rules.

A transaction is within the scope of VAT if:

- there is a supply of goods or services
- made in the UK
- by a taxable person
- in the course or furtherance of business

The nature of the transaction will determine what VAT rate is applicable.

You are required to register for VAT if the value of your 'taxable' supplies exceed an annual level, although it may be beneficial to voluntary register. You may also choose different VAT schemes to operate within, such as:

- cash accounting
- a retail scheme
- flat rate scheme

Employing others

For the business to get off the ground or to enable expansion, it may be necessary to employ staff. It is the employer's responsibility to deduct income tax, National Insurance, potentially pension contributions and to account for student loan deductions. Payroll records should be carefully maintained.

You will also need to be familiar with employment law and you should ensure that you have employment contracts, policies, procedures and appropriate employment insurance in place.



Loans to shareholders

If a close company (most privately owned small companies are 'close') makes a loan to a participator (i.e. a director/shareholder), the company must make a payment to HMRC if the loan is not repaid within nine months of the end of the accounting period, but is repayable at a future time when the loan has been repaid.

Tax saving and timing

As a new business it is important to understand what level of taxation you might be facing and when it will be payable. As most businesses' tax liability on profits is payable in arrears, many new businesses find themselves facing cashflow difficulty if they are not saving monies from the outset.

MHA Moore and Smalley: Trusted Thinking

Whilst some generalisation can be made about starting up a business, it is always necessary to tailor the strategy to fit your situation. Any plan must take account of your circumstances and aspirations. Whilst business success can never be guaranteed, professional advice can help to avoid some of the problems which befall new businesses.

At MHA Moore and Smalley, Trusted Thinking is at the heart of our entire approach.

For our clients, people, professional partners and communities, MHA Moore and Smalley's trusted approach is just as important today as it was when we started in 1892. We believe that together we can have a fruitful, longstanding relationship.

We consult with all our clients on a regular basis via a client satisfaction review which allows clients to put forward their suggestions of what they would like to see from MHA Moore and Smalley. This has been very well received and means that as a firm we can continuously improve our service. Our last survey indicated that 97% of our clients would recommend us to their contacts. This is an impressive feat and one of which we are proud. We keep regular communication with our clients and adding value and thought leadership with our regular e-newsletters, events, blogs and videos.

A tailored service for you

At MHA Moore and Smalley we believe in formulating a strategy suitable not only for your requirements now but for the future as your business changes, develops and grows, this includes:

- start-up advice
- bookkeeping and outsourcing
- provision of management information and key financial data
- payroll compliance
- accounts and tax compliance
- review of business tax strategy and opportunities
- bespoke and personalised tax planning
- pension and financial planning
- funding advice
- MHA Moore and Smalley SE+ is a service that builds on cloud accounting software to provide a supportive service from the very start of your business.

We can provide expert and bespoke training from the very start to make sure you start off on the right footing. With a dedicated consultant on hand for any questions you shouldn't have to worry about your bookkeeping. We recommend QuickbooksOnline or other appropriate software to new and growing businesses alike. Some people don't want to use cloud software, and if that's you, we may recommend an alternative software supplier.

Free initial consultation

If you would like a free initial consultation to discuss any matters included in this guide, or alternatively any areas not covered we offer an hours free initial meeting to discuss your business, the support you need and how we can work together.

If appointed, your MHA Moore and Smalley team would be carefully selected to work with you and would consist of people with the right skills to meet your specific needs. Your team would have relevant experience, knowledge and personality to work with you in a proactive and positive way.

MEET OUR

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Chartered accountants & business advisers

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