



# **New Business Start Up Kit**

A Guide to Financial, Tax  
and Accounting Considerations  
of Starting a New Business

## **PREFACE**

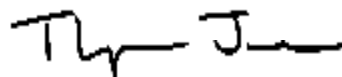
Thompson Jenner were established in 1951 and have built up an excellent network of professional connections within the South West. We have offices conveniently located in Exeter and Exmouth and a work force of over 60 persons including the seven partners.

Staff are professionally trained to a very high standard and are experienced in advising on a whole range of business matters as well as financial, commercial, taxation and accounting problems you are likely to encounter when setting up and running your new business.

This publication has been produced as a guide to help those of you thinking of starting a business or who have recently set up a business. Many items contained in this starter pack will prove useful as a source of reference in the future as well as in the early stages of a business.

There is no substitute for good professional advice and it is important that professional advisers have a healthy relationship with their clients. We like to provide a personal service with professional care.

We hope that you will find the enclosed guide helpful to you in setting up your business. If you need any further advice on the matters covered in our New Business Start Up Kit, please call us on 01392 258553 or 01395 279521 or alternatively complete and return the faxback form at the back of this guide.



**Thompson Jenner**

**May 2009**

**[www.thompson-jenner.co.uk](http://www.thompson-jenner.co.uk)**

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# CHAPTER 1

## BEFORE STARTING UP

### **Financial, Tax and Accounting Considerations of Starting a New Business**

It is the ambition of many people to run their own business. In recent years this dream has become a reality for some made redundant, whilst others may decide to start up in business to be more independent and to obtain the full financial reward for their efforts.

Whatever the reason for considering setting up in business, a number of dangers exist.

A major concern must be the risk of business failure despite considerable effort and finance having been put into the venture. Time spent in making the decision and thinking through your plans will minimise the risk of failure.

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

Consider the views of your family and friends. Their support is essential. 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. This kit highlights many of the practical points that require consideration before trading begins. It cannot cater for every possibility and decisions should be supported by appropriate professional advice.

For information of users:

This kit is published for information only. It provides only 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 from a partner of this firm. No responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this kit can be accepted by the partners of the firm.

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# CHAPTER 2

## SELECTING A LEGAL ENTITY FOR YOUR BUSINESS

One of the first major 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 organised your operations and 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 four basic forms of business organisations. Each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

Whatever the nature of your business venture, we will assist you with choosing the most appropriate form of legal entity.

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### Sole Trader

A sole trader is typically a business owned and operated by one individual. A sole proprietorship is not considered to be a legal entity under the law, but rather is an extension of the individual who owns it. The owner has possession of the business assets and is directly responsible for the debts and other liabilities incurred by the business. The profit or loss of a sole trader is combined with the other earnings of an individual for income tax purposes.

A sole trader is perhaps the easiest form of business to own and operate because it does not require any specific legal organisation, except of course, the normal requirements such as licenses or permits. A sole trader typically does not have any rules or operating regulations under which it must function. The business decisions are solely the result of the owner's abilities.

## **Partnership**

In a partnership, two or more individuals join together to run the business enterprise. Each of the individual partners has ownership of company assets and responsibility for liabilities, as well as authority in running the business. The authority of the partners, and the way in which profits or losses are to be shared, can be modified by the partnership agreement. The responsibility for liabilities can also be modified by agreement among the partners, but partnership creditors typically have recourse to the personal assets of each of the partners for settlement of partnership debts.

The requirements in relation to accounting records are similar to those of a sole trader. The rights, responsibilities and obligations of the partners are typically detailed in a partnership agreement. It is a good idea to have such an agreement for any partnership.

A partnership is a legal entity recognised under the law and as such it has rights and responsibilities in and of itself. A partnership can sign contracts, obtain trade credit and borrow money.

A partnership is also required to file an income tax return. A partnership typically does not pay income tax; the taxable income is divided between the partners and each partner is responsible for his or her own taxation liability.

## **Limited Company**

A limited company is a separate legal entity. A limited company has substantially all of the legal rights of an individual and is responsible for its own debts. It must also file corporation tax returns and pay taxes on profits it derives from its operations. Typically, the owners or shareholders of a limited company are protected from the liabilities of the business. This is because the individual shareholder's liability is limited to the amount of their share capital in the company. However, for smaller limited companies, banks and other creditors often require personal guarantees from the principal owners before lending money or extending credit. Even so, the legal protection afforded the owners of a company can be useful and can far outweigh the additional expenses of starting and running a limited company.

Limited companies must have annual accounts prepared in accordance with HM Revenue and Customs requirements. Most companies will not require an audit unless annual turnover exceeds £6.5 million or total assets exceed £3.26 million. The accounts and other information must be filed each year with Companies House.

Limited companies must also file annual corporation tax returns and accounts with H M Revenue and Customs. For larger, more profitable businesses there can be significant taxation advantages in incorporating as a limited company, and these are now available to small profitable companies.

Incorporating a business allows a number of other advantages such as the ease of bringing in additional capital through the issue of shares, or allowing an individual to sell or transfer their

interest in the business. It also provides for business continuity when the original owners choose to retire or sell their interest.

In recent years the changes to pensions legislation and tax changes have tended to favour the limited company route as a means of paying less tax and National Insurance by paying dividends. However, the tax benefits are now reducing and much depends on the level of likely profits, to consider whether the tax savings justify the additional costs. The potential savings by going down the company route do need consideration. However, it is also necessary to consider factors such as the company car as savings from incorporation can soon be totally eliminated if a company car and fuel for private usage are provided. There are other factors beside the tax implications that should be borne in mind.

**Should you decide to incorporate your business, you should seek the advice of Thompson Jenner, who have extensive experience in this area.**

## **Limited Liability Partnership**

The Limited Liability Partnerships Act 2000 created a new type of business entity, the Limited Liability Partnership ("LLP"). The LLP offers limited liability to its members but is tax transparent and offers flexibility in terms of its internal organisation.

An LLP is a separate legal entity from its members. Therefore, it may enter into contracts and deeds, sue and be sued and grant floating charges over its assets in its own name. This avoids the problems that exist in relation to partnerships, where technically it is often necessary for every partner to be party to certain documents or litigation, and the creation of floating charges is not possible.

The members of the LLP are those persons registered at Companies House as members.

The main "price" paid in return for limited liability is public availability of financial statements. An LLP must file audited accounts (prepared on a "true and fair view" basis) annually at Companies House, which must include the name and profit share of the highest paid member.

In addition the LLP must also file details of the name and address of every member at Companies House. At least two members must be "designated members" responsible for making proper filings at Companies House (and subject to penalties in the event of default).

Provided an LLP carries on a trade or a profession and is not simply an investment vehicle it is tax transparent – that is the LLP itself is not taxed on its income or capital gains at all. Instead the members are taxed on their shares of the LLP's profits and gains, just as partners in a partnership are currently taxed.

This means that the LLP may be more tax efficient than a limited company. This is because ordinarily a limited company is taxed on its income and capital gains and the company's shareholders are taxed on distributions from the company to them, giving rise to potential double-taxation.

LLP's were primarily intended for use by the professions. However, any type of business operating for profit may use LLP's. An LLP may be suitable for use as a joint venture vehicle or as an alternative to a limited company, particularly for small businesses.

**Should you decide to set up a limited liability partnership, you should seek the advice of Thompson Jenner.**

***If you need any further advice on the matters covered in this section, please call us on 01392 258553 or 01395 279521 or alternatively complete and return the faxback form at the back of this guide.***

## Business Structure - The Pros and Cons

Company	Sole Trader/Partnership
A company must be formally incorporated with a written constitution in the form of a Memorandum and Articles of Incorporation. There is, therefore, an initial setup cost.	There are no formation costs, but a written partnership agreement is advised.
Companies are governed by the Companies Acts. A company must:- -Keep accounting records -Produce audited accounts (if turnover > £6.5m) <i>-File accounts and an Annual Return with the Registrar of Companies. This information is available to the public.</i> -keep Statutory Books	Sole traders and partnerships are not required by law to have annual accounts nor to file accounts for inspection. However, annual accounts are necessary for the HM Revenue & Customs tax returns.
Companies may have greater borrowing potential. They can use current assets as security by creating a floating charge.	Sole traders and partners are unrestricted in the amount and purpose of borrowings but cannot create floating charges.
Shares in a company are generally transferable – therefore ownership may change but the business continues.	
Incorporation does not guarantee reliability or respectability but gives the impression of a soundly based organisation. Personally, there may be prestige attached to directorship.	The unincorporated business does not carry the same prestige.
Tax is payable on directors' remuneration paid via PAYE on the 19 <sup>th</sup> of the following month. If applicable, higher rate tax is paid by shareholders on dividends under the self-assessment rules.  Corporation tax is payable 9 months after the year-end.	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. Tax for 2009/10 is payable:- first payment on account on 31 January 2010, second payment on account on 31 July 2010, with any final balance due on 31 January 2011.
Losses in a company are less flexible for claiming tax relief.	Losses generated by a sole trader or a partner can be set against other income of the year or carried back to prior years.
For profits up to £300,000 tax is generally charged at 21% (2009/10)	Profits are taxed at 40% on taxable income in excess of £37,400 (2009/10)
There is both employers' and employees' national insurance payable on directors salaries and bonuses. The NI charge is greater than that paid by a sole trader/partner.	A partner/sole trader will pay Class 2 NI of £2.40 p.w. and Class 4 NI dependent on the level of profits.

# CHAPTER 3

## ACCOUNTING AND BOOK KEEPING



### Accounting Systems

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, lawyer, or inventor. Unfortunately most people don't like to keep the accounting records. 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 of many decisions made by outsiders such as banks, landlords, potential investors, and trade creditors as well as taxing authorities and other government 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 book keeping or accounting systems. Far too often owners of businesses become overwhelmed by their accounting system, to the point where it is of little or no use to them. An accounting or book keeping 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 book keeper).

## Questions you should ask in developing an accounting and financial reporting system are:

- .. Who will be the user of the financial information?
- .. What questions do I need answered in order to manage the business?
- .. What questions should be answered for government or regulatory taxing authorities?

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

To help establish meaningful accounting records you need to answer some questions, in conjunction with your accountant, as to how your business will operate and what is important to you.

### 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.

To help establish a good working chart of accounts you need to answer some questions, in conjunction with your accountant, as to how your business will operate and what is important to you. Some of these considerations might be:

- .. Will your business have stock to account for? If so, will it be purchased in final form or will there be production costs?
- .. Are fixed assets a significant portion of your business?
- .. Will you sell only one product or service or will there be several types?
- .. Will you sell on credit to customers and need to keep track of debtors?
- .. Are you going to sell in only one location or will you do business in several areas?
- .. Do you need to control costs by department?
- .. What type of government controls or regulatory reporting are you subject to?
- .. Are the products you sell subject to VAT?

Each one of these questions can have several answers and will probably generate more questions. Each answer will have an impact on how the accounting system is structured. It may seem that developing accounting systems is not particularly high on your list of things to do as you start a new

business; the amount of time and money which a well organised accounting system may save you can be significant as the need to generate information for various purposes increases.

## **Cash or Accrual Accounting**

One of the decisions to be made as you start a business is whether to keep your records on a cash or accrual basis of accounting. The cash basis of accounting has the advantage of simplicity and almost everyone understands it. Under the cash basis of accounting you record sales when you receive the money and account for expenses when you pay the bills. The increase in the money in 'the cigar box' at the end of the month, is how much you have made.

Unfortunately, as we all know, the business world is not always so easy. Sales are made to customers and you sometimes must extend credit. Your business will incur liabilities which are due even though you may not have received the invoice or have the cash available to pay them.

Most users of financial statements such as bankers and investors are used to accrual based accounts and expect to see them. Once you become familiar with them, they provide a much better measuring device for your business operations than cash basis statements.

Whether you keep your books on a cash basis or not, it will probably be worthwhile preparing accounts on an accruals basis. It may be more advantageous (less tax) for you to do so. Thompson Jenner can advise you on the advantages and feasibility of doing this in your particular circumstances.

## **Accounting Records and Record Keeping**

Another question which 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 book keeper, will you have a book keeper who comes in periodically, or will the volume of activity be such that a full time book keeper 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 aspects of the business and the time required maintaining 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. Thompson Jenner can help you develop a good program of record keeping duties for you, your employees and any outside book keepers you may engage.

## A Word About Computers

The computer is probably the single most valuable invention for book keeping and accounting since the advent of double entry book keeping. If your business includes any of the following then a computer would be a useful tool in your business.

- .. Many repetitive or routine tasks.
- .. Lots of paperwork; i.e., payroll cheques, invoices, purchase orders, mailing labels
- .. Lots of general correspondence
- .. Written reports, contracts, newsletters, catalogues or brochures

Thompson Jenner know about both your business and computers so we can take much of the confusion out of the selection process by assisting you in the purchase and installation of your computer.

There are a number of very good, easy to use accounting software systems which are commercially available, but none of them will solve the problems of inaccurate or poor quality financial records. All they do is generate bad information faster. This is one of the reasons that the computer has probably caused more headaches for the owners of modern business than any other single cause. If you want to use a computer based accounting package, either in your own business, or through your accountant, it is imperative that you generate accurate information to be entered into the system.

The real value of the computer becomes apparent once it is running smoothly in your business. We can then function in the capacity for which we are trained, not as a 'number cruncher,' but as your business adviser, consultant and strategist. We can focus together on analysing your business to make it more profitable rather than producing reports for various regulatory authorities.

## Internal Control

Internal Control is the system of checks and balances within a business enterprise which helps to ensure that the Accounts are accurate and reliable. When you are operating as a 'one man business' 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 what the size of your business, you should always be able to answer "YES" to the following questions:

- .. When my company provides goods or services to our customers, am I sure that the sale is recorded and the revenue is recorded in debtors or the cash in collected?
- .. When cash is expended by my company, am I sure we received the relevant goods or services?

The methods used to ensure that these two questions can be answered positively 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 reviewing all delivery notes and being sure all deliveries are accounted for or reviewing all invoices and time cards before signing company cheques. These are fundamentals in a well run business. As the company grows you will need to consider concepts such as segregation of duties and accounting and computer control systems.

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.

### **How Do I Prepare My Accounts?**

Under Self-Assessment, you will not have to send in your accounts with your tax return. Instead you will be asked to include the accounts information in a special section in the return. Your tax office may ask to see your accounts with your business records, to check the figures in your return.

Accounts are usually in two parts:

- .. The profit and loss account, which is the summary of the years trading transactions.
  
- .. The balance sheet which shows the assets and the liabilities of the business.

### **Simple Tax Accounts**

If your business turnover (total sales) before expenses is below £30,000 for a full year, you will not have to provide detailed accounts information in the return. Instead, a simple three line summary will do. For example:

.. Turnover	£24,845
.. Less Purchases & Expenses (including capital allowances)	£ 5,268
.. Net profit	£19,577

It is proposed that the turnover threshold will be increased to £69,000 for 2009/10

# CHAPTER 4

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

### ***H M Revenue & Customs***

It is necessary to notify H M Revenue & Customs of your existence by completing forms CT41G (companies) or CWF1 (sole traders/partnerships). The form notifies H M 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 up to £300 plus a continuing penalty of £60 per day, or £3,000 if information is given negligently or fraudulently by a company.

### ***H M Revenue & Customs - NI Contributions Office***

Depending on the level of profit, sole traders and partners have a liability to Class II NIC, and these are payable either quarterly or monthly by direct debit. Class 2 contributions are at a weekly level of £2.40 (where annual earnings are £5,075 or more for 2009/10) and the necessary form to collect Class 2 contributions should be completed at the same time as the form CWF1. Leaflet CA02 'National Insurance contributions for self-employed people with small earnings' gives full details and an application form for exemption from liability.

### ***H M Revenue & Customs - VAT***

You need to consider if it is beneficial to be VAT registered from the outset. The pros and cons are discussed in Chapter 4. If you are registering for VAT, form VAT 1 needs completing, and if you are a partnership, form VAT 2 needs to be completed giving details of all the partners.

***If you need any further advice on the matters covered in this section, please call us on 01392 258553 or 01395 279521 or alternatively complete and return the faxback form at the back of this guide.***

# CHAPTER 5

## PAYROLL TAXES

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 collection of Income Tax and National Insurance Contributions becomes increasingly complicated and it is essential that whoever is responsible for preparing and maintaining the payroll records is conversant with the Inland Revenue payroll system and has a good knowledge of employment law and procedures.

The brief summary, which follows, will give you some guidance on the rules and regulations of the various taxing authorities.

**Thompson Jenner have an experienced and comprehensive payroll service, which could ease the pain!**

### **Employed or Self Employed**

Whether an individual is an employee or not in a particular situation, is simply a matter of fact which depends on the terms on which he/she works. The question of whether an individual is employed or self employed is important for the business as, if the individual is an employee, then the company will need to comply with the Reporting Requirements under the PAYE (pay as you earn) and NIC (national insurance contributions) system. We can advise you on whether individuals are employed or self employed and in case of doubt the situation should be clarified with the Inland Revenue.

**You must by law operate PAYE on the pay of employees. In most cases you must also account for their National Insurance contributions (NIC) and in certain circumstances you may also have to pay Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP).**

### **Registering with the Inland Revenue**

As soon as you employ your first employee, you must notify the local Inland Revenue Office that you are employing someone.

To set up a PAYE Scheme it is necessary to notify HM Revenue & Customs, by telephoning the 'New Employers' Hotline – 0845 60 70 143, or following the links from the Revenue website Employers section.

Once you have registered as a new employer the Inland Revenue will automatically send you a New Employer's Starter Pack which contains guidelines on operating PAYE, National Insurance, Statutory Sick Pay and Statutory Maternity Pay. These set out full details of how to calculate Income Tax and National Insurance contributions and how you should pay these amounts to the HM Revenue & Customs.

## Records Required

To operate PAYE you need deduction working sheets - form P11, codes for individual employees to show the tax allowances to which they are entitled, tax tables and end of year return forms P14, P35 and P38A. As an employer your obligations are to:

- .. Deduct the right amount of tax from your employees pay when you pay them.
- .. Work out how much National Insurance contributions you and the employee have to pay.
- .. Keep a record of the pay and deductions made.
- .. Pay the Inland Revenue the correct amounts due to them each month (or quarter where appropriate).
- .. Send the tax office a return at the end of each tax year showing totals of all payments and deductions.

## Calculating PAYE

In very general terms, you use an employee's tax code, sent to you by the tax office, along with the tax tables, to work out how much tax to deduct and refund during each tax year. The tax year runs from 6 April in one year to 5 April the next and is made up of tax weeks and tax months. The tax office sends all the forms and tables needed to make the calculations.

The tax tables help you to work out how much tax to deduct from or refund to each employee on each pay date. The tables are used with the employees PAYE tax code.

The detailed calculations of PAYE can conveniently be carried out on the Inland Revenue deductions working sheet (form P11) although similar substitute documents can be used, as can approved computerised payroll systems.

## Payment of PAYE and National Insurance Contributions

The total of tax deducted, less any tax refunded, during an income tax month must be paid to the Collector of Taxes within fourteen days. Because tax months end on the 5th, this means that you must pay the Inland Revenue Accounts Office all that you owe for PAYE and NIC by the 19th of each month. If you estimate that your average monthly payments of PAYE and NIC are likely to be less than £1,500, payment may be made on a quarterly basis.

- .. You must send a payslip with your payment – Revenue Form P30B
- .. You must keep records of payment – Revenue Form P32 is the Revenue example of a suitable employers payment record

## **Benefits in kind**

In many businesses the directors or employees have benefits which are not immediately taxed through the PAYE System. A common example is the use of a company car. When an employee is provided with a company car a form P46 (car) should be submitted to the Inland Revenue as soon as possible.

Employers are required to complete an annual return of expense payments and benefits for all directors and all employees earning over £8500 including benefits wherever any benefits or expense payments are received. This form P11D requires full details of all benefits received and expense payments made.

Similar information is required for employees earning less than £8500 who receive benefits or expenses via a separate form P9D.

Most benefits in kind are now subject to Employers National Insurance Contributions (Class 1A) of 12.8% payable by the employer to the Inland Revenue by 19<sup>th</sup> July.

## **End of the Tax Year**

The PAYE tax year ends on 5 April. At the end of each tax year employers are required to send to the tax office a form P14 for each individual employee which is a summary of the deductions working sheet. These end of year returns must be completed in respect of all employees where tax has been deducted, together with a covering certificate on form P35 employers annual statement, declaration and certificate.

## **New Employees**

Where a new employee joins, you must ask him at once for parts 2 and 3 of form P45, the old employers summary form showing pay and tax details for an employee leaving. A deductions working sheet must be prepared for each new employee. If no P45 is available a P46 must be completed.

## **Other Matters**

The employment of staff brings with it legal obligations and involves other commercial considerations. Employees must be provided with a written statement of terms of employment, not later than 2 months after the employee starts work. This sets out the name of the employer, employee and the job title. It should also contain a job description and details of work, pay, sick pay arrangements, holiday entitlement, pension rights, disciplinary procedures and the notice required to end the employment.

# CHAPTER 6

## INCOME TAX AND CORPORATION TAX

Eventually, you will have to deal with income or corporate taxes. The taxation legislation is extensive and can be confusing for an individual starting a business. This chapter does not cover all the tax ramifications of a new business, nor does it detail all the expenses you can claim for, nor does it give details of allowances available on the purchase of some capital allowances. A Chartered Accountant should be consulted when you are dealing with the taxation affairs of the business. The payment of taxation has a direct impact on your cash flow.

### Choice of Year End

#### Which Accounting Year Should I Choose?

If you expect profits to rise steadily year by year, in the case of sole traders/partnerships, an accounting date early in the tax year, for instance 30 April, might be best in the short term, because this will defer the payment of tax on your profit. However, it is important to consider what will happen when you retire. Any accounting date other than 31 March will cause a bunching of your tax liabilities because all your profit that has not been assessed prior to your retirement will be assessed for your final year. There are a number of ways to mitigate the effect of this. You could plan to retire on or shortly after the accounting date, and allow “overlap relief” to reduce the burden. You could build up a reserve to meet the liability, or use the higher profit to permit an abnormally large pension contribution.

On the other hand if you expect to make losses in your early years, an accounting date late in the tax year, for instance, 31 March, will ensure that you get tax relief for those losses as quickly as possible. You would then not be faced with the bunching problem on retirement referred to above.

It will also be necessary to bear in mind the seasonality of your business. As part of the profit for your first period of trading could be taxed twice, it would be unfortunate if a poor choice of accounting date were to accelerate the tax on the profit of your first busy period. In these circumstances it might be preferable to run your first accounts to a date just short of your peak period.

As ever, it is important not to overlook commercial considerations. Your bankers might want to see as healthy a profit as you can manage and this desire could conflict with tax planning. A solution would be to choose a tax efficient tax accounting date, and keep the bank happy with quarterly management accounts.

## Tax Returns

### Companies

Companies are charged corporation tax at the rate applicable during the financial year (1 April - 31 March). Where a company's accounts period spans two financial years the profits for the period are apportioned between the years.

Financial year to	31 March 2010		31 March 2009	
First	£300,000	21%	£300,000	21%
Next	£1,200,000	29.75%	£1,200,000	29.75%
Over	£1,500,000	28%	£1,500,000	28%

There are special rules to calculate the tax rates applicable for profits falling between the small companies and normal rates, and are such as to ensure that the tax charge rises progressively.

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.

### Sole Traders/Partnerships

Sole traders and partnerships are charged income tax at the rate applicable during the fiscal years (6 April - 5 April). The rates are as follows:

	2009/10	Rate	2008/09	Rate
<b>Lower</b>	*see below	10%	*see below	10%
Basic- next	£37,400	20%	£34,800	20%
Higher-over	£37,400	40%	£34,800	40%

\*10% starting rate for savings income up to £2,440 (2008/09-£2,320) Not applicable if taxable non-savings income exceeds £2,440 (2008/09-£2,320).

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 rate of £2.40 (2009/10). Class 4 NI is payable by the self employed on profits.

Class 4 contributions are levied at 8% on profits between £5,715 and £43,875 (max) for 2009/10 and profits between £5,435 and £40,040 (max) for 2008/09. There is a further 1% charge on profits in excess of the upper limit of £43,875 (2008/09 £40,040).

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 the 31 January in the year of assessment, the other half by the 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 the Inland Revenue 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. This date is moved forward to the end of September if you wish the Inland Revenue to calculate your tax liability or 31 October to file a return on paper.

***Please ask your tax adviser at Thompson Jenner for a copy of the latest Budget Tax Card showing all the current years tax rates and allowances.***

**TAX DATA 2009/10**

## **Tax Planning**

Proper tax planning is essential in order to ensure that your tax liabilities are minimised, that you claim all the allowances and reliefs to which you are entitled and that you make the most advantageous use of the numerous tax laws, regulations and concessions. You will need to develop a good working relationship with a suitable qualified professional who has experience with the taxation of your type of business.

Tax planning is not an annual event which can be carried out when completing your tax return and accounts. Tax planning is a year round endeavour requiring communication on both sides - you and your accountants. Proper planning ensures there are no nasty surprises when your tax returns are filed.

## **Conclusion**

Tax legislation is extremely complex. The amount you may save by attempting to tackle your own taxes, especially business taxes, can be greatly exceeded by the tax costs and expenses you may incur if you make a mistake. However, a far greater consideration is the need to take professional advice to ensure you do not miss any tax planning opportunities which may be available to you and your business.



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# CHAPTER 7

## VALUE ADDED TAX (VAT)

VAT is a tax on consumer expenditure and is ultimately paid by the final customer. Most business transactions involve the supply of goods or services and VAT is payable if they are made:

- a) in the United Kingdom
- b) by a taxable person
- c) in the course or furtherance of business and are not specifically exempted or zero-rated

VAT is collect by HM Revenue & Customs and is normally payable quarterly.

### Registration

There are two different types of registration - compulsory and voluntary:

#### A. Compulsory

A person who makes taxable supplies becomes liable to be registered if:

- a) *At the end of any month, the value of his taxable supplies in the period of one year then ending has exceeded the registration limit, which is £68,000 from 01 April 2009.*
- b) At any time, there are reasonable grounds for believing that the value of his taxable supplies in the next 30 days will exceed the £68,000 limit.
- c) If, where a business carried on by a taxable person is transferred as a going concern, the taxable supplies for the twelve months prior to the transfer exceed £68,000.

In the most common situation, i.e. (i) above, the person must notify H M Revenue & Customs of the liability within 30 days of the end of the month in which the value of the taxable supplies first exceeded £68,000. If, for example, the value of the taxable supplies first exceeded £68,000 in the twelve months to 31 March, then H M Revenue & Customs must be notified by 30 April and VAT registration would commence on 1 May.

#### B. Voluntary

In certain circumstances, it is possible to register on a voluntary basis for VAT even though the value of taxable supplies may never exceed £68,000. This is normally only beneficial where the majority of supplies are being made to customers who are themselves VAT registered, e.g. it would not be beneficial for a domestic painter with taxable supplies of £30,000 to be registered, whereas it would be beneficial for a commercial or industrial painter with the same level of supplies.

The other situation in which a voluntary registration might be beneficial is where the supplies are all zero-rated and no VAT is charged on the transaction. All VAT suffered by the trader on expenses can be reclaimed from H M Revenue & Customs.

In summary, the advantages and disadvantages of a voluntary registration are as follows:

### **Advantages**

- enables input VAT suffered to be reclaimed;
- a VAT number can give the impression that a business is larger than it actually is which sometimes can increase the possibility of obtaining work.

### **Disadvantages**

- the requirement to prepare VAT returns on a quarterly basis and to submit them within one month of the quarter end - is the amount of work involved worth it for the amount of input VAT that can be reclaimed?
- H M Revenue & Customs may visit the business about every five years to ensure that VAT is being properly accounted for.

## **Taxable Persons and Supplies**

### a) 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 different businesses, both with taxable supplies of £40,000, then that person will be required to be registered for VAT and account for VAT at the appropriate rate on the total supplies of £80,000.

It is possible to mitigate the effect of VAT by having one of the businesses operated by a limited company or by a partnership with a relative, but professional advice needs to be taken since H M Revenue & Customs have the power to still treat the two businesses as one if strict criteria are not met.

### b) 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.

The major categories of exempt supplies are:

- Land (but not buildings)
- Insurance
- Postal services
- Betting, gaming and lotteries
- Finance
- Education
- Health and welfare

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.

## Tax Rates

There are three rates of VAT:

1. 15% (until 1/1/2010 when it reverts to 17.5%)
2. 5% - for certain supplies of fuel and power and sanitary goods
3. Zero-rated - the four main areas of zero-rated goods are:
  - Food and agriculture (but excluding pet food and most catering)
  - Printed matter, including books and newspaper
  - Young children's clothing and footwear
  - Passenger transport (but excluding hire cars, taxis and parking)

Any VAT charged by the business, whether at 15%/17.5% or 5% is known as output VAT and the total charged or collected in the VAT quarter is payable to H M Revenue & Customs.

## Input VAT

Input VAT is the VAT that you are charged on your business purchases and expenses (the other persons output VAT) and is normally recoverable in full by a trader who only makes standard rated or zero-rated supplies. Businesses that make some exempt supplies (known as partially exempt businesses) have different recovery rules. The total input VAT suffered in the quarter is deducted from the output VAT charged or collected and the difference is either the amount of VAT due to H M Revenue & Customs or the amount repayable by H M Revenue & Customs. The majority of input VAT is recoverable but there are special rules for:

- cars
- petrol supplied for private usage;
- business entertaining;
- goods sold under a VAT second-hand scheme.

To reclaim VAT you have been charged as input VAT, you must hold valid evidence that you have received a taxable supply, which normally means a valid VAT invoice from a registered trader showing his VAT number and the amount of VAT charged.

## Special Events

VAT was originally described as a simple tax but has gradually become more and more complicated over the last twenty years with changes to the operation of VAT every year. It is not always possible to calculate each quarter's VAT liability by merely deducting input VAT incurred from 7/47 of the sales income and professional advice needs to be taken in the following situations:

- Importing and Exporting - either within or outside the European Union
- Partial Exemption, i.e. where a business makes some exempt supplies, all the input VAT incurred is not necessarily recoverable
- Retail Schemes, i.e. where both zero rated and standard rated supplies are made which cannot be separately identified at the point of sale
- Land and Property
- Cash Accounting
- Self-supplies
- Second-hand schemes for motor cars, used boats, antiques, horses and ponies and others.

## Penalties

The impact of penalties has been considerably reduced since the early 1990's and the possibility of any business suffering a serious misdeclaration penalty for an innocent error on their VAT returns is low. The two most important penalties still in existence which every business should be aware of are:

- a) Late registration penalty for not registering for VAT at the correct time. The penalty is based on a percentage of the VAT due between the date of registration and the date that the person was required to be registered and the percentage increases dependent upon the lateness of the registration. The penalty is in addition to the VAT that is due.
- b) Default surcharge for traders that are persistently late in either submitting VAT returns and/or making payment of the liability due. The penalty is based on a percentage of the VAT due and is on a sliding scale.

## VAT Checklist

### Registration

- (a) Should the business be registered?
- (b) Is basis of registration correct?
- (c) Are details on registration certificate correct?
- (d) Do procedures exist for notifying H M Revenue & Customs of relevant changes?
- (e) Review position at regular intervals.

### Preparation of returns

- (a) Has return been received? If not, then obtain duplicate from VAT Office.
- (b) Review sources of information.
- (c) Prepare draft return.
- (d) Check for accuracy and completeness.
- (e) Make payment (if outputs exceed inputs)

### Input Tax

- (a) Do any restrictions on input tax exist? If "Yes", does an agreed method exist and does this method maximise input tax?
- (b) Are invoice additions and calculations checked?
- (c) Is input tax claimed at the earliest tax point?
- (d) Are all claims properly supported? Ensure all supporting invoices kept.

### Output Tax

- (a) Are all income heads reflected for VAT accounting?
- (b) Are all potential sources of notional supplies considered?
- (c) Are all potential sources of income (asset sales, etc.) covered by VAT accounting system?
- (d) Is VAT captured at the correct tax point?
- (e) Is VAT correctly applied where appropriate?

## Annual Accounting

It your turnover is below certain prescribed limits, you may be able to prepare just one VAT return each year, with interim payments during the year.

## Flat Rate Scheme

Small businesses are able to adopt a flat rate scheme where businesses can calculate their VAT by simply adding a flat rate to their tax inclusive turnover. The flat rate percentage will depend on the trade sector into which the business falls for the purpose of the scheme. There is a one percent reduction in the first year of registration, and many of the set rates have also reduced making the scheme more attractive to start-ups.

## Conclusion

Value Added Tax is one of the most important taxes in the UK. It is also one of the most complex, with numerous special rules and schemes applying to different types of business.

Because VAT is charged on sales, not profits, errors in VAT treatment often give rise to very significant liabilities, which can be increased substantially by interest and penalties.

## Money Laundering Regulations

HM Revenue & Customs have responsibility for administering certain aspects of The Money Laundering regulations 2003 particularly relating to High Value Dealers (HVDs).

HVDs are those traders who may receive 15,000 Euros (approximately £15,000) in a single transaction or a series of linked transactions. The Regulations principally apply if cash or cash equivalent are offered in settlement.

If you believe you may be a HVD you should discuss this with your advisors or visit the H M Revenue & Customs Website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

Further if you believe you may be affected by the Regulations as they related to regulated businesses you should discuss this with your advisors as the penalties for not complying are serious.

***VAT regulation changes constantly, so it is particularly important that whenever in doubt you should seek the advice of your accountant as to the VAT implications of unusual transactions or changes in the circumstances of your business.***

***If you need any further advice on the matters covered in this section, please call us on 01392 258553 or 01395 279521 or alternatively complete and return the faxback form at the back of this guide.***

# CHAPTER 8

## CASH PLANNING AND FORECASTING

**CASH IS KING!** The life blood of any business is its ability to collect cash and pay bills as well as pay 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 will pay and when your business will pay its obligations. However, 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.

### Starting the Analysis

One of the most significant factors to be considered in your cash flow forecast is the volume of sales which will be generated in the next several months and for the rest of the period for which you intend to forecast. Your sales forecast must be as fine tuned as possible. It is typically unrealistic to assume that there is a million pound market for your product in your area and you will be able to capture a specified percent of it. A sales forecast needs to be based upon specific facts. These might include your sales history or the history of similar businesses you have owned or operated or the competition. In you area of industry, what has been the experience of similar operations?

Some of the questions which should be addressed would include:-

*What other aspects can I control such as:-*

- .. Adding new product lines
- .. Deleting unprofitable operations
- .. Adding a new salesperson
- .. Or terminating one that is not producing to quota?

In preparing a forecast, you must also take into consideration items such as the seasonality of your business, the relative state of the economy and the period over which you will forecast.

Obviously your ability to forecast sales for the next month is better than it is for three to five years from now. The amount of detail which must be included in the cash forecast is really a matter of preference. It can be based on per-unit sales extended out by the sales price of each type of unit or an average sales volume per day, week or month of your type of business in its current environment.

## **Cash Collections**

Once you have determined a reasonable level of sales and you are comfortable with the forecast you have made, you must address questions such as: what percentage of my sales are received in cash, and what portion are credit sales for which I will have to carry debtors? For those that are credit sales how soon is the cash collected?

If you are relying on customer payments for collection of amounts owed to the business you must determine what portion of the debts will be collected in thirty days, sixty days, ninety days and thereafter, and what portion, if any, may never be collected. To assume that 100% of your sales will ultimately be converted to cash is probably unrealistic even in good economic conditions.

Other sources of cash may be available in addition to sales. Do you expect to bring in a partner or other investors, or can you borrow money from a bank? When will you receive the cash and how much will you get? Part of your cash flow analysis may be to determine how much investment money or borrowings will be required to operate your business.

Once you are comfortable with the cash receipt side of your business, and the timing of the collections of funds from your sales and other sources, it is necessary to consider the expenses and other cash needs of your business operation.

## **Expenses**

Certainly if your business entails sales of stock you will have to purchase the merchandise from others or purchase the component parts and pay employees to assemble it. This may require a significant outlay of cash before the first pound of sales is generated and received. You should consider how often and in what amount your employees must be paid and when their payroll taxes must be paid.

Additionally, you need to know the credit trade terms your vendors are willing to advance to you.

- Do you have to pay for stock items on a COD basis or can you pay for them thirty or forty five days after receipt?
- What expenses must be paid to allow you to convert purchased merchandise to saleable stock?

If your production requires utilities to run machines or supplies that are required such as packing materials that must be purchased prior to the sale of the stock you should consider the timing of payment.

In addition to the cost of manufacturing, you should consider whether your productive capacity will allow you to generate enough stock to support the level of sales which you are predicting.

If the volume of sales you forecast is above and beyond your ability to produce today:-

- What changes in your operating environment must be made to meet the production levels?
- Will you need additional employees, if so, how much will they cost?
- Do you have to acquire additional machinery for your shop operations?
- What is the cost of the machinery and when will you have to pay for it?

Once you have determined the cost of operating your production or service facilities, you need to consider what other expenses you must pay to keep the doors of your business open. You must consider how much the monthly payment is and when it has to be paid. Ask yourself if there will be other cash requirements such as a deposit on first and last month's rent.

If you are opening a new business, you must consider what your cash requirements are to make your premises ready for your specific needs and purposes. Will you have to buy or rent furniture? Will you need to make tenant improvements or pay deposits for utilities and other services?

You also need to consider many of the overhead items and costs to open a new business that will hopefully be one off expenses. This may be legal fees for drafting partnership agreements or accountants fees for incorporating your business. The cost to obtain business licences, setting up an accounting system, stationery costs, costs of signs or logos.

***It may seem like the list of costs and expenses to be incurred is endless. It may even discourage you in moving forward with your business endeavour. However, it is imperative to make the list as detailed as possible to ensure that you have sufficient funds to make your operation ready for business without running out of cash. The more detailed the list and the more information you can provide, the less chance there is of unpleasant surprises as you move down the stream to opening your business.***

In addition to determining the amount and volume of expenses and cash outlays you will have to make, it is critical to determine the timing of such payments. As we have discussed in other chapters, there may be a variety of financing alternatives which are available to you. Most of the start up costs which you incur can be delayed or deferred until you can generate the cash from your operation to help pay them. This needs to be carefully analysed and planned into your cash flow forecast. However, a good rule of thumb is to assume that you are going to have to pay your expenses sooner than you think and that you will collect your cash slower than you anticipate. If you work with this attitude, any surprises should be favourable ones.

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.

The following tax matters require consideration as part of the preparation of your cash flow forecast:

## **VAT and Other Taxes**

If you are VAT registered (compulsory for businesses with sales in excess of the statutory limit), your sales receipts will include "Output" VAT and some of your costs will include "Input" VAT. The net receipt of VAT has to be paid over to H M Revenue & Customs each quarter. If, however, your sales are zero rated, you will be able to claim back the VAT on your purchases.

The basic calculation is not as difficult as is often made out. Typically, adding up your sales receipts for a quarter, multiplying the figure by 17.5 and dividing by 117.5, gives you your output VAT. (Until 31 December 2009 the fractions are 15 and 115). Do the same for your purchase invoices to calculate input VAT. Deduct input from output and put this figure into your cash forecast in the first month of the next quarter.

## **PAYE**

If you employ people you will have to deduct tax from their pay and pay it over to HM Revenue & Customs on the 19<sup>th</sup> of the following month. For a forecast it is sufficient to put the gross figure in the cash flow forecast as it is automatically includes PAYE.

## **Tax on profits**

If you are the proprietor of a business that is not a limited company, your wages are part of the profit of the company and referred to as "drawings". The tax that you pay will be based on the profit of the business not the amount that you take out. It is advisable to pay a sum into a deposit account each week to provide for the tax that will be due after your year-end and it could be a lot of money. Ask your accountant about this.

Many businesses go bust because they fail to provide for the taxes that are payable. Make sure that it does not happen to you!

## **Conclusion**

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. We can help you do this; but the critical factor is that we can 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 that 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 pin point areas of potential cash savings which you had not otherwise considered.

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# CHAPTER 9

## FINANCING THE BUSINESS

If not independently wealthy and perhaps even if you are, eventually you will probably need to obtain outside capital for your business. 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 additional 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 wise to consult your solicitor as there are many significant legal ramifications to such a step.

### **How do I get the money?**

Irrespective of the type of financing you need and are able to obtain for your business, the process of obtaining it is somewhat similar. There are several questions that must be answered during the course of raising money for your business. The ability to answer these questions is critical to your success in obtaining finance as well as to the overall success of the business. Remember, in raising capital you have to sell the ability of your business to potential investors in much the same way as you sell your product to your customers.

#### **1. *How much cash do I need?***

To answer this question you will need to prepare a business plan, which will require estimates of future sales, the related costs, and how quickly you must pay your creditors. You will have to build into your planning some assumptions about when you will generate enough cash to pay the money back. However, if you raise cash through equity you probably don't need to pay it back but your investors will want to know how the value of the business will grow and how they will benefit through dividends or selling their shares.

#### **2. *What will you do with the money?***

One of the most important questions you will have to answer for a potential investor is how the money will be spent. Will you use it for equipment, to finance stocks, to fund debtors or perhaps for research and development for a new or improved product. You will need to show how the investment will benefit the business. The emphasis must be on practical, simple plans not vague statements of intent.

#### **3. *What experience do you have in running your business?***

One of the primary reasons for business failure is lack of experience and management. You will need to convince your investors that you have the knowledge, experience and ability to manage your business and their money at the level at which you expect to operate.

#### **4. *What is the climate for your type of business and your geographic location?***

Few investors will want to put money into your business if you haven't done sufficient 'homework' to determine that you have a reasonable chance of success. If your business is based on existing economic or legal conditions which are subject to change in the near future your risk is substantially increased. Even if your business has great potential, if the local economy is sluggish to the point that it can't support your venture, you need to be aware of this before moving ahead.

Once you have developed concrete answers to these and other pertinent questions, you can begin looking for finance.

One of the first steps is to determine whether to raise funds through debt or equity. There are positive and negative aspects to each type of capital. The cost to your company of each type of funding is different, as is the way in which they are treated for tax purposes.

The interest on borrowed money is deductible by a business for income tax purposes, which reduces the effective cost to your company. Dividends which you might pay on the same investment in shares would typically not be tax deductible by your company.

In selling shares there usually is no firm commitment by your company to pay the money back but your investor will often want a legal right to have a voice in the management of your company.

When you have made the decision as to the type of financing you think is appropriate to fit your desires and needs it is probably a good idea to consult with your accountant as to alternative types of debt or equity financing available.

### **Business Plan**

Typically, a potential lender will want to know all about you and your proposed venture. Many of these details will have already been provided, but are best provided in a logical consolidated format. This format, or business plan, is a document that enables the investor to readily obtain an understanding of your proposal. It follows that in order to successfully raise funding, the business plan should be commercial and realistic.

Thompson Jenner have experience in writing business plans and can assist you in the effective drafting of your plan.

### **Financing Alternatives**

Whether you determine that debt or equity financing is the best choice for your business, 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 new business to obtain finance, though the possibilities are many. A good business orientated accountant can discuss these and other alternatives in greater detail.

### **Sources of Finance**

## **Banks**

The first source of funds which typically comes to mind when borrowing money is a bank, that is why they are in business. Banks typically lend to small businesses against the security of charges on property, other business assets and the personal guarantees of the proprietors. The more liquid and readily saleable the business assets you have to offer as security the more acceptable they are likely to be to a banker. Bank borrowing may take several forms such as:

1. *An overdraft 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 debtors are collected. This is normally used to fund working capital.*
2. *A short term loan for the purchase of a specific asset such as machinery or equipment.*
3. *A term loan that is repayable on specified dates.*
4. *Mortgage lending against the security of the property.*

The Equity Finance Guarantee scheme was established by the Government to encourage bankers to lend money to small businesses which do not have a track record or the necessary security to obtain normal bank lending.

## **Leasing and Hire Purchase**

In today's business environment it is quite common to acquire equipment by leasing or hire purchase. Leasing packages come in a variety of types through many sources. Leasing companies typically will accept a somewhat bigger degree of credit risk because they are looking to the value of the equipment for collateral if your business cannot make the agreed payments. For this reason, leasing companies generally prefer to finance new equipment of a general purpose nature which can be resold if necessary. Leases and hire purchase agreements often run for a period of three to five years and because of the risk that leasing companies are willing to take, they can be somewhat more expensive than commercial bank loans.

## **Trade Credit**

A very important source of financing for your company may be from the suppliers with whom you do business. Many suppliers will originally ask for cash on delivery or in some instances they want payment before starting on your order, depending on the nature of your purchase. 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 instances before you pay for them. The trade credit you build today will be relied upon by other suppliers as you attempt to establish yourself with other vendors in the future. Trade credit terms will vary depending on the type of purchase you make, the industry you are buying from and the industry you are in.

## **Equity Finance**

Equity financing usually means selling a portion of your business. This can be accomplished in a number of ways including the sale of shares in a limited company or a partnership share in an unincorporated business. Equity sales are usually carefully tailored to meet the needs of both the company and the investor.

## **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 who may be individuals or corporations. The investors are often represented by a management group which 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. A venture capital firm sometimes requires what seems a very high return, however a venture capitalist is in the risk business and the return on a good investment must help offset those companies that do not meet their projections or fail altogether.

To determine the price of such financing, a venture capitalist will start with the amount of financing you require and calculate what he must receive at the time his investment will be sold to allow him to achieve the rate of return he deems necessary.

Based upon the operating projections you provide, discounted based on his experience, he will estimate what your company might be worth at the time his investment will be liquidated. This might be at the point of a public offering or a sale to a corporate investor. The last step for a venture capital company in determining pricing is to calculate what percentages of the company he must own to realise the return he desires. At this point, the 'horse trading' generally begins. As a general rule you will want to retain as much of the ownership of the company as you can. The venture capitalist wants enough ownership to achieve his investment goals and have some control over how his money is spent. This will often be achieved by voting power and representation on the Board of Directors. At the same time a venture capitalist wants to be sure there is sufficient reward in the company for you and your management team to be motivated and achieve the projections in your business plan.

A venture capital company is often managed by an individual or group of individuals with a strong background in business and management. They can often provide depth of experience and management assistance in areas where your management team may be weak. A venture capital group can very often provide contacts and valuable introductions in your industry. Remember a venture capital investor becomes a member of your team.

## **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 of 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.

The enterprise investment scheme has been introduced to encourage investment in the equity capital of new, unquoted companies, by giving tax reliefs to the investor as a reward for the risks involved in this type of investment.

## **Government Sources**

There are an enormous range of Government grants and assistance schemes available to business although very few in the Exeter and East Devon area. You should discuss the possibility of obtaining grants and other assistance with your accountant.

## **Proprietors Equity**

Your own funds and the retained profits of the business are an important source of equity. It is often possible for a proprietor to raise a modest stake himself from such sources as pension fund loan backs, endowment policies, or personal loans from members of the family.

***If you need any further advice on the matters covered in this section, please call us on 01392 258553 or 01395 279521 or alternatively complete and return the faxback form at the back of this guide.***

# ***APPENDIX***

## ***Presenting Your Case to the Bank***

### **The Business Plan**

When seeking to obtain finance from your bank, the single most important factor in determining the bank's initial response is the quality and strength of your business plan.

Your bankers will normally expect to find the following information in the business plan:-

**1. Summary**

A section should be included, before all the others, summarising the key points of the plan.

**2. Your Business**

Explain what your business is, its history (if already established), the market in which your business operates and the strengths and weaknesses of any known local competitors.

**3. The People**

Provide details of yourself, including information on education, training, experience and other relevant details. If there are other key personnel involved in the business, their details should also be given. You need to sell yourself and your team.

**4. Your Business Objectives**

Provide a clear, concise statement of your realistic objectives for at least the next twelve months.

**5. Financial Information**

If your business is already established, supply a copy of the last three years accounts.

**6. The Borrowing Request**

Set out what is required from the bank or financier. The bank will need to know precisely how much is required and what it is required for. They will also need to know the security available and the basis on which the repayment of the loan is proposed.

**7. Budgets**

Budget profit and loss accounts should be prepared covering at least the next twelve months. All fixed and variable costs should be clearly identified and the assumptions made in the forecast should be clearly stated. It is important to build in a margin for contingencies. Be prepared to justify your projected level of sales. The single biggest reason for business failure is the inability to generate the level of sales forecast.

**8. Cashflow Forecast**

In addition to an operation budget, the bank manger will also require a cash flow forecast which covers at least the next twelve months, using various estimates for timings of receipts

and payments. Assumptions will have to be made and they should also be explained. Forecasts should be drawn up sensibly and conservatively and should show the level of finance needed to fund the expected level of activities.

## **Conclusion**

The business plan is an extremely important document. It should be put together clearly and concisely. Thompson Jenner will be able to help you to put the business plan together. However it is vital that you fully understand the plan and are able to answer questions from the bank on the assumptions made.

Finally, it is always a good idea to provide the bank with the business plan in advance of any meeting and to give the bank time to consider your proposals.

# CHAPTER 10

## FORMING A COMPANY

### Forming a Limited Company

The status of limited liability confers certain responsibilities on Company directors including the filing of information at Companies House.

When a company is formed, it has to file Memorandum and Articles of Association which set out the main objects of the company, its capital structure and the duties and responsibilities of the directors and shareholders.

At the formation of the company a minimum of 1 Subscriber Share must be issued and any further shares will be allotted at the first meeting of the company and Companies House is notified on Form 88(2). We can help with the incorporation using online registration through registration agents.

At formation, the company must also notify Companies House of the location of its Registered Office on Form 10 together with the details of its first director (a minimum of 1) and company secretary who cannot be a sole director. It is more normal that a firm of agents forms the company and files the Form 10, then a transfer to the intended directors is carried out at the first meeting of the company and the intended directors and company secretary then signs and files Form 288a.

### What are Annual Returns?

Each year the company is forwarded an Annual Return, which summarises the main information on file, and the directors are asked to sign and reconfirm the statutory information. The filing fee payable to Companies House is set at £30 but reduced to £15 if filed online.

### When do I have to File My Accounts?

The company's directors must ensure that the accounts are filed within 9 months of the end of an Accounting Period. Automatic penalties are charged for accounts filed late.

### Responsibilities of Directors & Company Secretary

It is also the responsibility of the directors and the company secretary in particular to maintain copies of all the statutory information and minutes of all the directors and shareholders' meetings.

***If you need any further advice on the matters covered in this section, please call us on 01392 258553 or 01395 279521 or alternatively complete and return the faxback form at the back of this guide.***

# CHAPTER 11

## INFORMATION TECHNOLOGY

**Buying the right business computer system can make a huge difference to the success of your business - buying the wrong one can waste a great deal of time and money.**

### Colleton Computer Solutions Ltd

CCS was formed in 2000 from the IT support department of Thompson Jenner Chartered Accountants, who have been advising local businesses for over 50 years. CCS became the first official **Microsoft Small Business Specialist** in Exeter and the region (30 mile radius) in November 2005 and received the globally recognised quality assurance certification **ISO9001** in December 2005 reflecting its commitment to customer care, efficiency and effectiveness.

Quite a few small businesses are still unaware of the financial and other implications of letting their computer systems evolve aimlessly without giving much thought to long-term planning and direction. The results are unorganised data management, irregular, incomplete and labour intensive back-up sessions during office hours and the risk of virus attacks via emails and the internet because anti-virus software is not installed or not regularly updated. CCS believes that a computer network is now within financial reach of most small businesses. Reliability is essential which is why only leading market brands are used.

### Hardware

The choice of hardware involves primarily:-Hard disk size, Processor speed and Memory.

A minimum recommended standard should be a hard disk of 80 GB and 1GB of RAM. The fastest processors are running at least 2 Gigahertz upwards.

With the release of Windows new operating system, Windows Vista, it is recommended you have the 80GB hard disk, 2GB of RAM and a Duo Core 2Ghz processor.

All modern PC's come with a VGA (high resolution) colour monitor and at least a 17" monitor capable of running at 1024\*768 resolution is recommended.

In recent years, prices have dropped dramatically and a very high specification PC can be bought for around £600.

### Printers

For accounts purposes, a "**dot matrix**" printer will produce copies of invoices and payslips if these facilities are being used.

**Laser printers** are affordable for quality letter printing but, of course, only produce one copy at a time. For colour printing, **inkjet printers** represent good value and indeed the price of **colour lasers** has also dropped significantly and good quality printers can now be purchased for under £400.

### Software

Accounting software, like hardware, is now very powerful and comparatively inexpensive. Integrated software includes Sales, Purchase and Nominal Ledgers with Sales/Purchase Order Processing and Stock Control in a single suite of programs. Prices range from £99 to £600 for this type of program running in "single user" mode. Networked versions for multi-user use are generally more expensive.

We have reviewed most of the well-known names in this sector of the market and find, as with many things in life, you tend to get what you pay for.

Modular systems are made up of individual programs for each of the above functions, each of which is more powerful and flexible than the integrated systems. These are put together to form a total system for the larger business, usually on a network of a number of PC's.

These systems are for businesses with turnovers of "say" £1 million upwards.

Microsoft and their "Office" software package and the Windows operating system is practically universally used on PC's nowadays. Accordingly, most other software producers have now produced Windows versions of their own packages. Microsoft "Office" includes word processing, spreadsheet and database software and will be suitable for most business environments.

New technology, notably e-mail and the Internet have had a great deal of publicity in recent times. There can be no doubt that development in these areas will significantly impact on our lives, both socially and commercially. Getting on to the Internet is a relatively simple and inexpensive process. Developing and maintaining a website can be as complex and expensive as you care to make it. A great deal of careful thought needs to be given before significant time and expense is incurred as to how this aspect of technology be best implemented to suit your business. There are many options to consider in how this should be addressed. At CCS we can give some useful independent advice and thoughts in relation to your strategy in this area.

## **Suppliers**

The computer industry is well known for "here today, gone tomorrow" suppliers. Make sure that you choose one with a good local reputation and never part with money until you have received the goods. Paying extra for on-site maintenance is a sound insurance for equipment being used for business.

## **Planning and Implementation**

Planning and implementation must cover the layout of your accounts, control over the information going in and verification of the information coming out of the system.

It will also be necessary to produce the accounting data for entering the opening balances.

Where advanced management information is involved, such as profit and loss by departments, more detailed planning is required. Development of a system can only take place at the pace at which staff are able to increase their own skills. The following phases of development may be appropriate for a new start-up system:

- Recording of prime entries (Cash Received and Paid; Sales and Purchase Invoices)
- Bank Reconciliations and VAT Returns

- Monthly Adjustments (e.g. Depreciation and Stock Change) producing monthly management accounts
- Sales Invoicing Routines
- Advanced Management Information e.g. detailed analyses of sales and departmental costs
- Sales and Purchase Order Processing with Stock Control

Even at the first stage, the system will produce Aged Debtors and Creditors on a regular basis to enable the business to improve its cash flow.

A “set up procedures list” together with details of typical available reports follows this section.

## **Training and Support**

Training staff who are to use the computer is essential both to get off to a sound start and to make progress. CCS will provide training, on request, tailored to your specific requirements.

CCS also offer telephone and e-mail support for those problems that can be quickly resolved in this way.

## **Security**

The popular press would have you believe that it is only a matter of time before a virus attacking your hard disk eats up your data! The most frequent reason for loss of data is not taking backups.

CCS will not only advise on, but also insist that, proper procedures are in place to make your data as secure as is practical.

## **Costs**

Hardware and software is dependent on prevailing market prices. Installation and training is proportional to your requirements and usually charged at an hourly rate.

## Conclusion

CCS have the necessary balance of computing and accounting expertise to help you to both get off to a good start and later to improve your system.

They have good working relations with local computer companies who will supply and maintain your equipment. Many will also provide the technical support for networks and, if needed, tailor your software to specific requirements.

## Installation of Accounting Systems

1. Consult your accountant! Grants may be available for training.
2. Decide on starting date, consider trial period.
3. Set up nominal ledger accounts, Balance Sheet and Profit and Loss Layout.
4. VAT? Accrued or Cash Accounting.
5. Are departments required for sub analyses?
6. Use a dummy company for practice (Multi-company systems only).
7. Obtain starting trial balance.
8. Obtain starting Sales and Purchase Ledger balances.
9. Enter Trial Balance by journal entry.
10. Enter Sales/Purchase account code, names, addresses, etc.
11. Enter Sales and Purchase Ledger balances by posting directly to Sales/Purchase control account.
12. Enter live data:
  - a. sales and purchase invoices
  - b. cash received
  - c. cash paid
  - d. petty cash
13. Consider the need to keep manual records for at least three months and Cash Book for full year.
14. Reconcile Bank Statement with Cash Book and Computerised Bank Control Account.
15. Consider direct production of Sales Invoices. Free text or from stock. If the latter, stocks, dummy or real need to be entered into stock records.
16. Keep a backup disk for each of the five weekdays. Keep a weekend backup off the premises.

**Benefits will be mainly a business that you manage - instead of a business that manages you!**

## **Double Entry Principles**

By entering a Sales Invoice in the Sales Ledger, the customer's account, the Sales Ledger Control Account (agreeing the total of the individual sales ledger balances to the total debtors in the trial balance), the VAT Account, and the Sales Account in the Profit and Loss Account are all automatically updated. Posting Purchase Invoices, Cash Received and Cash Paid all complete the double entry and update Control Accounts.



# ***New Business IT FaxBack***

**Faxback Request for Further Information**

**Fax to: Colleton Computer Solutions Ltd  
01392 412094**

**Please circle as  
appropriate**

**YES** - Please contact me to discuss:

- |   |   |
|---|---|
| <input type="checkbox"/> Hardware                               | ✓ |
| <input type="checkbox"/> Software (including financial systems) | ✓ |
| <input type="checkbox"/> Networks                               | ✓ |
| <input type="checkbox"/> Web Services                           | ✓ |
| <input type="checkbox"/> Electronic Communication               | ✓ |
| <input type="checkbox"/> Other – please specify                 | ✓ |

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**Name:**

**Address:**

**Telephone:**

**E-mail:**

**Type of Business:**

**Signed:** ..... **Date:** .....

# CHAPTER 12

## 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 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 broker can help you review the amount of coverage your business requires. Usually you will want to insure against risks that could have significant detrimental impact on your business. This normally would include items such as fire, storm damage, theft, employers', public liability and products 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 cover for incidental risks or by increasing the deductions on policies that you buy. Often raising the deductible (excess) can have a very favourable impact on the policy premium. 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 losses in excess of a sizeable deductible amount. An insurance broker can provide you with comparative costs for various types of cover and varying degrees of deductible amounts.

### Required Policies

The insurance cover required by law is employers' liability and third party motor insurance. Your insurance broker can explain the required cover and help you purchase the correct policy. You must be aware that the terms of your building, office lease or mortgage may require you to carry certain kinds of insurance cover in specified minimum amounts. If you have leased equipment or have borrowed money from a bank or other lenders, there will usually be insurance requirements in the agreement relating to these transactions. There are many other types of policies that you may wish to consider. Specific cover is provided by each policy and a qualified insurance broker can explain the related costs in-depth.

Some types of insurance cover that you should consider for your business are listed below.

### Commercial Liability Insurance

There are many types of liability your business may need cover for. "Liability" refers to your legal obligation to pay compensation and costs awarded against you in respect of loss or damage sustained by a third party. Types of liability insurance you may want to consider are:-

- Public Liability – this will protect you from any liabilities to a third party (other than your employees) for bodily injury or loss/damage to their property that may occur during the normal operation of your business.
- Employers' Liability – if you are a limited company or employ anyone outside your immediate family, you are required by law to purchase employers' liability insurance.

This insurance offers you protection for any liability arising from injury or illness sustained by employees whilst they are working for you.

- Product Liability – this will protect you from any liabilities to a third party (other than your employees) for bodily injury or damage to their property that may occur from the products you have sold or supplied.
- Professional indemnity – this cover is usually purchased by “professionals” such as IT consultants, surveyors, accountants, solicitors etc. This cover will protect your legal liabilities to third parties arising from your or your employees’ professional negligence/wrongful advice.

## **Property Insurance**

There are many different types of property cover but generally businesses will purchase cover for buildings, machinery and stock against fire and other perils such as storm/flood etc and theft. They will also consider covering money, goods in transit and glass. For small businesses cover can be provided on a ‘package’ basis where certain covers such as money and goods in transit are included in the premium as standard, however this option is only available for specific occupations/trades and you should consult with your broker for further details.

If you are working from home be aware that generally your ordinary household insurance policy will not provide cover for your business stock and liabilities. Specific policies can be purchased if you are working from home and you should contact your insurance broker for further details.

There are specific policies for property owners who rent out their premises to tenants. These policies provide cover for buildings, liability and loss of rent. Loss of rent cover is usually only provided in the event of an insured peril occurring such as a fire or flood etc.

## **Motor Trade (Products, Sales and Servicing Indemnity)**

Products, Sales and Servicing Indemnity (PSSI) is an extension of cover that is usually provided with employers’ liability and public liability insurance for the motor trade.

- Products liability/Sales indemnity will cover you in the event that you cause injury or damage to third parties.
- Servicing indemnity will cover you in the event that you are pursued for injury or damage caused by defective workmanship. For example, if you are a car mechanic and forget to re-attach the brakes properly and the client had an accident as a result of the brakes failing.

## **Business Interruption**

This covers loss of income/revenue or additional expenditure incurred following a disruption to the operation of your business. Business interruption usually mirrors your property policy and covers the same perils, however, it is possible to add additional perils to your business interruption cover such as food poisoning or failure of utilities. Your broker will be able to provide you with advice regarding this cover and the possible extensions.

## **Fidelity Guarantee**

This type of insurance typically covers risk of loss from theft by employees. If your business deals in large amounts of cash, negotiable securities or similar types of assets, you may well be advised to consider this cover. Certain industries are required to carry this insurance by regulatory authorities.

## **Directors & Officers Liability**

Directors and officers of companies in recent years have been found to be personally responsible for their negligence in the running of their company. Recent legislation has also made company directors liable for their behaviour to the company so that shareholders, creditors, customers and employees can now sue them as individuals.

Directors and officers liability cover provides indemnity to the company in respect of the costs it incurs in indemnifying a director against the successful defence of a claim or indemnifying the director where the defence has not been successful.

Although this is a relatively new cover in the insurance market, it is strongly recommended for limited companies and you should seek the advice of your broker for quotations.

## **Overview**

Insurance is like any other product that you purchase. Before buying cover you must ensure that your broker has been approved by the Financial Services Authority and that the insurance company that is being quoted is financially stable. Your broker will have access to this information and will be happy to provide you with details. This is just a brief outline of the basic insurance you may require. Each business is different with individual requirements and in view of the ever changing legislation and insurance markets, you should always consult with a qualified insurance broker for advice.

## **Key Person Protection**

This provides a company with a valuable safety net should serious illness, disability or death curtail the contribution certain “key” people could make to its stability, profitability and success.

## **Identifying a Key Person**

These are the people whose special knowledge, skills or enterprise are vital to the continuing survival of a business - people who are difficult to replace. Remember, key people come in many guises. They aren't always the Managing Director or other high, profile senior managers. Consider other key functions that are necessary to the company's business when talking key person insurance with your clients.

## **When is Key Person Protection Needed?**

There are three clearly identifiable situations when key person insurance is most needed.

- To prevent loss of profits
- To protect the repayment of loans
- To safeguard the raising of capital

## **Partnership Protection**

The death of a partner can be extremely damaging to any business. The ability to continue trading and maintain the financial well being of the firm will be vital. In addition, there are

other problems which may have to be faced, in the absence of property provision in the Partnership Agreement and insurance cover:

- The partner's interest may pass to an heir who may not have the necessary skills, experience or interest to continue in the business.
- The partner's interest may need to be turned into cash to pay Inheritance Tax or provide for his or her dependants on death.

Raising the finance to buy a partner's interest may involve the sale of assets or finding someone who can afford to buy-in to the partnership. Finding a suitable replacement and raising the money can be difficult and time consuming. If unsuccessful, the partnership may even have to be dissolved. It is clear that partners need to retain continuity, stability and control of the business whatever the eventuality. This can be achieved by making adequate legal and financial provision.

## **Shareholder Protection**

Like partners, shareholder's shares may pass to an heir who does not understand the company's business or whose interests conflict with those of the other shareholders. Alternatively, the shareholder's interest may need to be converted into cash to cover Inheritance Tax liabilities or provide for dependants. Maintaining control and stability of the company during this often turbulent time is key to its continued success. By taking the appropriate legal and financial steps shareholders can be confident that the future holds no surprises.

## **Pensions**

**Some arrangements that you may have already have or be familiar with:**

Stakeholder Pensions  
Small Self Administered Schemes  
Executive Pensions  
Personal Pensions  
Retirement Annuities  
Final Salary  
Money Purchase  
etc, etc

**From April 2006, effectively none of the above exists due to:**

### **Pension Simplification legislation**

The Government announced major changes to simplify pensions legislation, which are aimed at encouraging pensions provision. Among the changes that apply from April 2006, are the following:

- A Lifetime Allowance [Fund] limited of £1.5 million that increases each year to £1.8 million by 2010.
- An annual Contribution Allowance of £215,000 that increases steadily to £255,000 by 2010.
- Any tax-free cash benefits limited to 25% of the fund.

- The minimum age normal benefits can be taken is to be increased to age 55 from 2010.
- No return of Capital on Death after age 75.

## **However from an employer's point of view:**

### **Stakeholder Pensions**

Introduced in April 2001

Since October 2001, all employers with more than four employees have been required to nominate a stakeholder pension arrangement to which their employees can contribute. The following groups of employees are exempt from this requirement:

Employees who would normally qualify to become members of an occupational pension scheme not more than 12 months after starting work, or on attaining age 18;

Employees who qualify for membership of a group personal pension with no exit charges to which the employer contributes at least 3% of basic pay;

Employees who earn less than the lower earnings limit, currently £110 (2008/09 - £105) per week in any week in the last three months;

Employees who are within five years of the normal pension age under an occupational pension scheme but could otherwise join;

Employees who have worked for the employer for less than 3 months;

Employees who have been offered membership of an occupational pension scheme and have declined to join or who have left the scheme and are now unable to rejoin

OPRA can fine employers who do not comply.

If after 8 October 2001, an employer employs more than four employees for the first time, it has three months in which to designate a Stakeholder scheme.

# CHAPTER 13

## NOTEPAPER AND INVOICES

The design of business stationery can be an important part of your marketing strategy. Letters, invoices, order forms and other stationery are all forms of advertising. When designing business stationery, it is important to bear in mind the legal requirements for different types of business.

### **Sole Traders**

A sole trader can carry on business using a business name. There is no requirement to register this. All business letters, orders and receipts must state the name of the owner and the business name and address. Invoices must state the VAT registration number.

### **Partnerships**

Partnerships are required to state on letters, orders, invoices and receipts the names of all partners and the principal office of the partnership or alternatively indicate where a list of partners may be inspected. Invoices must state the VAT registration number.

In addition at all partnership premises a notice must be prominently displayed showing the names of all partners and their addresses or the principal office of the partnership.

### **Companies**

Company letters and orders must show the name of the company, the country of registration, the company registration number, the address of its registered office and the address of its place of business if different. There is no requirement to name the company directors, however if you wish to show the names of any directors, then all must be listed.

Company invoices must show at least the company name and VAT registration number. The name of the company must also be clearly shown on all notices, official publications, cheques, receipts and other similar documentation; in addition the company must also clearly display outside each office and place of business a nameplate showing the name of the company.

### **Websites and Emails – Companies**

Companies must list their company registration number, place of registration and registered office address on websites and emails.

***If you need any further advice on the matters covered in this section, please call us on 01392 258553 or 01395 279521 or alternatively complete and return the faxback form at the back of this guide.***

# CHAPTER 14

## USEFUL ADDRESSES

The information supplied in this booklet should be helpful to you in starting your new business. One thing you can never have too much of is information. You may find the addresses below useful:-

Thompson Jenner  
Chartered Accountants  
1 Colleton Crescent  
EXETER  
Devon  
EX2 4DG

Tel: 01392 258553  
Fax: 01392 412094  
enquiries@tjexeter.co.uk  
www.thompson-jenner.co.uk

Colleton Computer Solutions Ltd  
1 Colleton Crescent  
EXETER  
Devon  
EX2 4DG

Tel: 01392 435803  
Fax: 01392 412094  
info@c-c-solutions.co.uk  
www.c-c-solutions.co.uk

Department for Business  
Enterprise & Regulatory  
Reform  
1 Victoria Street  
LONDON  
SW1H 0ET

www.berr.gov.uk

HM Revenue & Customs  
(VAT registration)  
VAT Office  
62-70 Tettenhall Road  
Deans Gate  
Wolverhampton  
WV1 4TZ

Tel: 0845 0390129  
www.hmrc.gov.uk/vat

Regional Development Agency  
(South West)  
Sterling House  
Dix's Field  
EXETER  
EX1 1QA

Tel: 01392 214747  
Fax: 01392 214848  
www.southwestrda.org.uk

Thompson Jenner  
Chartered Accountants  
28 Alexandra Terrace  
EXMOUTH  
Devon  
EX8 1BD

Tel: 01395 279521  
Fax: 01395 272384  
enquiries@tjexmouth.co.uk  
www.thompson-jenner.co.uk

HM Revenue & Customs  
(Income & Corporation Tax)  
Customer Service Unit  
Longbrook House  
New North Road  
EXETER  
Devon EX4 4UD

Tel: 08453667830  
www.hmrc.gov.uk

Job Centre Plus  
Dept for Work & Pensions  
Clarendon House  
Western Way  
EXETER  
EX1 2DA

Tel: 01392 474700  
Fax: 01392 474788  
www.jobcentrepluc.gov.uk

Business Link  
Units 1-4, Cranmere Court  
Lustleigh Close  
Matford Business Park  
Devon,  
Exeter, EX2 8PW

Tel: 0845 6009966  
www.businesslink.gov.uk/southwest

Federation of Small  
Businesses (Devon)  
137 St Marychurch Road  
TORQUAY  
Devon  
TQ1 3HW

Tel: 01803 322499  
Fax: 01803 327659  
www.fsb.org.uk

Thompson Jenner  
Financial Services Ltd  
1 Colleton Crescent  
EXETER  
Devon  
EX2 4DG

Tel: 01392 258553  
Fax: 01392 412094  
enquiries@tjfs.co.uk  
www.thompson-jenner-fs.co.uk

Companies Registration Office  
Companies House  
Crown Way  
Maindy  
Cardiff  
CF14 3UZ

Tel: 0303 1234 500.  
www.companieshouse.gov.uk

Department for Work & Pensions

Visit the web site for a full list of contacts:

www.dwp.gov.uk

British Franchising Association  
A2 Danesbrook Court  
Oxford Office Village  
Langford Lane  
Oxon OX5 1LQ

Tel: 01865 379892  
Fax: 01865 379946  
[www.thebfa.org](http://www.thebfa.org)

Intellectual Property Office  
Concept House  
Cardiff Road  
Newport  
South Wales  
NP10 8QQ

Tel: 0845 9500505 + 01633 814000  
Fax: 01633 817777  
[www.ipo.gov.uk](http://www.ipo.gov.uk)

The Innovation Centre  
University of Exeter  
Rennes Drive  
EXETER  
EX4 4RN

Tel: 01392 263456  
Fax: 01392 263686  
[www.spaceforsuccess.co.uk](http://www.spaceforsuccess.co.uk)

[www.startups.co.uk](http://www.startups.co.uk)

[www.bizhelp24.com](http://www.bizhelp24.com)

Direct Gov  
UK Government Information  
[www.direct.gov.uk](http://www.direct.gov.uk)

#### Inland Revenue Business Support Helplines

Newly Self Employed	0845 9154515
Employers	0845 7143143
New Employers	0845 6070143
Employers Stationery Orderline	0845 7646646
Construction Industry Service (CIS)	0845 3667899
Self Assessment Enquiries	0845 9000444
Online Services	0845 6055999
Child Tax Credit	0845 3003900
Working Families Tax Credit	0845 3003900
Self Employed Contact Centre	0845 9154515
Business Payment Support	0845 3021435
Minimum Wage Enquiries	0845 6000678

Or contact the web site: [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

# CHAPTER 15

## SELECTING PROFESSIONAL ADVISERS

Starting your own business obviously entails a multitude of decisions; decisions which can sometimes seem overwhelming. In order to succeed you need to equip yourself with every tool at your disposal.

One of the most cost effective tools you can utilise is the expertise of a specialist. The right accountant and solicitor can help you to avoid many of the problems and potentially costly errors you might make as you build the foundations of your successful business.

As any coach can tell you, having a first rate quarterback (you) won't guarantee a winning team without a first rate line of defence. The right accountant and solicitor is your best defence. Their expertise can help save you money that in turn can be used to increase profits.

When enlisting the expertise of an accountant and solicitor you want a specialist suited to meet your specific needs. You want a specialist who will listen to you. More importantly, you need someone you **can** and **will** listen to as they devise strategies to help you succeed.

You want to succeed – and you can. By taking the time to make key decisions and enlisting the right players on your team – you will succeed!

Thompson Jenner have been an integral part of the Devon Business community for over 50 years. We have established a network of professional contacts that specialise in helping local business through the difficult early periods of start-up and growth. If you wish us to help you choose the most suitable solicitors, bankers, insurance brokers or other professional advisers for your business, we will be pleased to help.

We hope this guide has helped you see the main issues involved when you are thinking of starting your own business. Always remember to seek professional advice in areas where you are not sure. The benefit will far outweigh the cost.

**Good Luck!**

***"This is not a definitive guide and cannot deal with the individual circumstances of each particular business. No responsibility for loss occasioned to any person acting or refraining from action as a result of the material in this guide can be accepted by the firm or its partners."***

# ***New Business FaxBack***

## **Faxback Request for Further Information**

**Fax to: 01392 412094 or 01395 272384**

**Please circle as  
appropriate**

**YES** - Please contact me to discuss:

- |   |  |   |
|---|--|---|
| n | Selecting a legal entity for my business | ✓ |
| n | Accounting & Book keeping                | ✓ |
| n | Registering with the Tax Authorities     | ✓ |
| n | Payroll taxes                            | ✓ |
| n | Income Tax and Corporation Tax           | ✓ |
| n | VAT                                      | ✓ |
| n | Cash Planning & Forecasting              | ✓ |
| n | Financing the Business                   | ✓ |
| n | Insurance                                | ✓ |
| n | Other – please specify                   | ✓ |

---

**Name:**

**Address:**

**Telephone:**

**Type of Business:**

**Signed:** ..... **Date:** .....