

Starting Your Own Business

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Starting Your Own Business

▶ Why

- ▶ You want to work for yourself.
- ▶ You been made redundant and don't want to return to the job's market at the moment.
- ▶ You have a great idea and want to turn it into a reality.
- ▶ You are winding down from the 9-5 but still want to earn an income, albeit on a less grand scale.



Starting Your Own Business

- ▶ What do you need?
 - ▶ A plan
 - ▶ A life plan
 - ▶ A business plan
 - ▶ Enthusiasm
 - ▶ From you
 - ▶ From your “near and dear”
 - ▶ Finance
 - ▶ To support yourself
 - ▶ To support the business
 - ▶ Resources
 - ▶ Time, people, money



Starting Your Own Business

▶ The Plan

- ▶ Is this venture a way of earning money until you retire
- ▶ Is this venture something that will have a heritage
 - ▶ A brand
 - ▶ Something to sell on
 - ▶ Something for your children to inherit?



Starting Your Own Business

▶ Enthusiasm

- ▶ Make sure that it is focused, there is a big temptation to apply to everything at the start which spreads you more thinly and nothing gets done well.
- ▶ Make sure everyone else understands why you are doing this and why you are so enthusiastic
- ▶ Don't bore people with your plans – keep them informed but not overloaded.



Starting Your Own Business

▶ Money

- ▶ Whilst the business is getting established you have to live on something.
 - ▶ Savings
 - ▶ Redundancy
 - ▶ Investors
 - ▶ Bank Loan



Starting Your Own Business

▶ Resources Time

- ▶ Plan when you are going to do things
- ▶ Make sure the structures are set up at the right time
 - ▶ Bank Accounts
 - ▶ Registering for Self employment
 - ▶ PAYE
 - ▶ VAT
 - ▶ Etc...



Starting Your Own Business

- ▶ **Resources People**
 - ▶ Partners or other Directors
 - ▶ Family
 - ▶ Friends
 - ▶ Other staff - PAYE
 - ▶ Sub contractors – IR35
 - ▶ Building Industry - CIS



Starting Your Own Business

▶ Resources – Money

▶ Can you fund it yourself?

- ▶ Make sure the loan from yourself is clearly defined and that it is paid back in clearly defined payments.
- ▶ Make sure if additional loans are needed that the business case is there.....don't over stretch your own finances.

▶ Investors

- ▶ Venture Capital – it is still out there
- ▶ Family and Friends

▶ Bank Loans

- ▶ Very hard to get and not as cheap as it should be, take care with hidden costs like fees for getting the loan together and having to insure with the banks involved.



What do you call your business

- ▶ Finding a name

 - ▶ Research

 - ▶ Google

 - ▶ Companies House

Brand/Image

What you do

- ▶ Protecting a name

Company registration

Trademark

Passing off



Starting Your Own Business

- ▶ **What format do you choose**
 - ▶ Sole Trader/Self employed
 - ▶ Partnership/Self Employed
 - ▶ Limited Company
 - ▶ Limited Liability Partnership



Starting Your Own Business

▶ Self Employed

- ▶ Being self employed has many benefits in terms of being able to choose when and how to work, and the types of work to be undertaken. Often it is the aspect of “being my own boss” that attracts people to become self employed.
- ▶ Self employment also means that in general the harder a person works the higher the rewards. The fact that the rewards can be much higher than the perceived risks is often the motivator to become self employed.
- ▶ The risks are also greater, as there is no full protection from liability, and insurances are essential.



Starting Your Own Business

- ▶ There is no holiday pay, sick pay or other statutory employment rights.
- ▶ It can be lonely.
- ▶ A set of accounts must be completed every year, and a tax return filed with the Inland Revenue as a self assessment.
- ▶ An individual must register within 3 months of starting self employment, or face a fine of £100.
- ▶ There is a small tax advantage as NIC is 8% for Class 4, but you have payment on account, which can hit some people very hard.



Starting Your Own Business

▶ Limited Company

- ▶ A limited company has statutory provisions that require the directors to have a “fiduciary duty” in managing the affairs of the company.
- ▶ The accounting and management of the limited company’s accounts are more complex and hence more expensive when the year end bill is presented by the accountant
- ▶ A limited company has limited liability, which means that as a director it affords some protection from prosecution unless the plaintiff can prove that the directors have been negligent.
- ▶ There is still a tax advantage to running a limited company provided the split between salary and dividend is not unreasonable and that significant dividends are not being given to another shareholder to avoid tax payments (Artic Systems 2005/Dragonfly 2008)
- ▶ When operating a limited company, the directors must be aware of the provisions of IR35. If the company is being operated to avoid tax by working for only one contractor, but essentially being fully employed.



Starting Your Own Business

▶ Partnerships

- ▶ Essentially you are self employed, and the risks and rewards of trading are split between the partners according to the Partnership Agreement.
- ▶ Partners can be liable for debts even after they have left the partnership, and must be careful to ensure they have completely removed themselves from the liabilities before they can relax.
- ▶ Partners are taxed in the same way as the self employed
- ▶ Some industries can only operate as partnerships.



Starting Your Own Business

- ▶ Many businesses start as a sole trader and convert to a Limited Company as it grows.
- ▶ There may be certain financial and control advantages to having a Limited Company, and there are clear administration disadvantages.



Starting Your Own Business

▶ ADVANTAGES

- ▶ There is a limited degree of protection from personal prosecution as the employee/director of a limited company, as it is the limited company that is trading (although you can still be sued in certain circumstances i.e. Health and Safety or negligence).
- ▶ If operating a payroll system there is the protection of SMP, SPP, SSP, and redundancy.
- ▶ There is currently no National Insurance on dividends, although since April 2008 there has been a 21% tax on the profits before dividends.
- ▶ The first band for tax of a limited company is 21% (2009/10)



Starting Your Own Business

▶ DISADVANTAGES

- ▶ A Limited Company is a legal entity and any relationships with it must be strictly adhered to as a Shareholder/Director/Secretary and employee.
- ▶ Running a Limited Company requires greater care and awareness of the implication of certain decisions, and if the owner of an unincorporated business is not prepared to keep a close eye on accounts and filing, this is not a good route to take.
- ▶ A separate Bank Account must be maintained.
- ▶ PAYE/NI taxes are paid every 19th of each month (Quarterly can be arranged).
- ▶ Accounts have to be prepared to calculate the Corporation Tax that is payable 9 months and 1 day after the accounting period.
- ▶ Detailed Accounts and supporting schedules and data have to be submitted to the Inland Revenue.



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▶ Disadvantages Cont...

- ▶ Copies of the accounts must be submitted to Companies House within 9 months of the end of the Accounts period.
- ▶ An Annual Return must be filed with Companies House (present annual cost £15 for online filing and £30 for paper filing)
- ▶ For PAYE there are annual Forms (P35, P14s, P60s and P11D) for employee details, benefits and Taxes paid.
- ▶ It is preferable not to operate the Limited Company on overdrafts and loans, as Directors would generally be required to give guarantees.
- ▶ Capital Gains legislation is not as beneficial to a Limited Company.
- ▶ Additional administration time and costs keeping more detailed records.
- ▶ Additional Professional Fees.



Starting Your Own Business

▶ Bank Accounts

- ▶ It is always recommended to keep business money and personal money separate.
- ▶ Despite the costs it is worth having a different business bank account
- ▶ Try and get 2 years free banking.
- ▶ Try and work online to reduce the costs when they do apply.
- ▶ None of the banks are out standing.



Starting Your Own Business

▶ Registering for VAT

- ▶ Turnover of >£68,000
- ▶ Must keep an eye on moving monthly averages if the business does not register initially
- ▶ Can register at the start
- ▶ Impact of charging the client VAT – who is the end user?
- ▶ Flat Rate Scheme



Starting Your Own Business

- ▶ **Employing People**
 - ▶ Employment issues
 - ▶ PAYE
 - ▶ Statutory filing
 - ▶ Working with staff
 - ▶ Managing people



Starting Your Own Business

- ▶ Working from Home or Renting Premises
 - ▶ Expense
 - ▶ Can the business afford it
 - ▶ Insurance
 - ▶ At home insurance
 - ▶ Splitting work from home life
 - ▶ If you have stock it must be stored somewhere
 - ▶ You need to have the room to work from home



Starting Your Own Business

▶ Help and Advice

- ▶ Ask other business owners
- ▶ Talk to your family and friends and work colleagues
- ▶ Find a good local accountant
- ▶ Log on to business link
- ▶ Go to HMRC – but Google when searching
- ▶ Try the Federation of Small Business

