

# **Accountants in Practice**

**Working for Yourself**

**Gillian McAlister FCMA**

**Maria Land ACMA**

# Presentation Outline

- **The decision to work for yourself**
  - In practice?
  - As a contractor?
  - What sort of business will you have?
- **Starting the business**
  - Start up formalities
  - Winning customers
- **Focus on Contractors**
- **Focus on Members in Practice**

# Why would you work for yourself?

- **No guarantee of income**
  - Is your family fully in support?
- **There will be start up costs that require an initial outlay**
- **You have no choice?**
- **The responsibility is all yours**
  - To achieve sales, to deliver quality work
- **It can be lonely**
- **No big company niceties**
  - Paid holidays & sick, coffee room chat, the football club
- **You will have to do things that you don't really like doing**
  - Selling, networking, repetitive tasks

# Why would you work for yourself?

- **The Advantages...**
- **You decide**
  - the hours
  - the customers
  - the services
  - the employees
  - the partners
- **Less politics**
- **Financial benefits**

# Plan to succeed

- **Think about...**

- Your ambitions

- Lifestyle or financial? To manage the practice or be the practice?

- What is the minimum income you need each month?

- What costs?

- PC & printer, internet, phones, software, stationery, membership fees, marketing, staff

- The type of sales

- Regular or piecemeal, your skill set, location

- Your network

# Start-up Formalities - Generic

- **Legal entity**
- **Bank account**
- **Inform the IR**
  - Practicing as a sole trader (within 3 months)
  - Register for PAYE / CT
- **Register for VAT**
- **Insurance ([www.cimapi.com](http://www.cimapi.com))**
  - Professional indemnity
  - Employers & public liability
- **CIMA Members in Practice registration**  
([http://www.cimaglobal.com/Documents/ImportedDocuments/Do I need to register as a Member in Practice.pdf](http://www.cimaglobal.com/Documents/ImportedDocuments/Do_I_need_to_register_as_a_Member_in_Practice.pdf))

# Services – What can CIMA Accountants Offer?

- **Book-keeping / management accounting**
- **External accounts**
- **Business planning / budgeting**
- **Business process improvement**
- **Tax planning / advice**
- **Cash flow management**
- **Company secretarial**
- **Accounting systems**
- **Interim management**
- **Payroll / PAYE / NI administration**
- **Personal tax planning / advice**
- **Part time FD / Consultant positions in companies**
- **3<sup>rd</sup> party products & services**

# Which services?

<u>Annual</u>	<u>Operational</u>	<u>Project</u>
<ul style="list-style-type: none"><li>• External accounts for sole traders, partners, companies</li><li>• Self assessment returns</li><li>• Corporation tax returns</li><li>• Payroll &amp; P11d end of year</li><li>• Company Secretarial</li></ul>	<ul style="list-style-type: none"><li>• Management accounts</li><li>• Financial accounts</li><li>• Book-keeping</li><li>• VAT Returns</li><li>• Payroll</li></ul>	<ul style="list-style-type: none"><li>• Business plans</li><li>• Budgets</li><li>• Accounting systems</li><li>• Raising finance</li><li>• Business reviews</li><li>• Business purchase / sale / retirement planning</li></ul>

# Pricing

- **Fixed fee or hourly price**
  - Fixed fee works well for some services where the tasks involved are known, ie project work or payroll
- **Hourly rate**
  - Between £20 and £100 per hour for a qualified accountant supplying non-specialised accounting services required by most small businesses (book-keeping, management accounts, budgeting)
- **External accounts & tax returns**
  - Varies depending on complexity but for a small business or sole trader supplying good management accounting records charge between £300 and £2,000.

# Winning new customers

- **You are selling “you” and “your skills” so by far the most effective forms of marketing are personal references and recommendations.**
- **Client referrals**
- **Networking**
- **Using Agencies**
- **To work as a sales tool there needs to be a 2-way relationship**
- **It’s easier for people to recommend you if you offer something unique and differentiated.**

# Contractors – IR35

Legislation for IR35 came into effect from 6<sup>th</sup> April 2000

The legislation is designed to harmonise the tax and NIC paid by certain types of people/businesses in line with employed staff. It is designed to increase the revenue from the service industry where previously it was tax efficient to distribute income as small salary and a much larger dividend.

IR35 applies when an individual provides a service to a client through an intermediary, i.e. through a partnership, limited company or agency

The question that is asked is

“If the intermediary did NOT exist would the work for the client business look like direct employment”

From 10<sup>th</sup> April 2003 domestic workers also fell within this law including nannies butlers and housekeepers.

# IR35 - Definition

Could the answer to these two questions be “yes”

1. Would the individual be regarded as an employee if they worked for the client directly and not through the intermediary?
2. Does the individual have the rights to receive other payments from the company/partnership that is NOT employment income – i.e. Dividend?

# IR35 - Definition

If an individual could answer "yes" to the following questions, they may fall within the IR35 rules.

- Is the contract set hours, or a given number of hours a week or a month?
- Does the contract specify the work is done by a named individual rather than allowing for the subcontractor to provide another person to do the work?
- Is the contract supervised so that the individual is told what to do, when to do it or how to do it?
- Is the contract paid by the hour, day, week?
- Does the individual get overtime pay?
- Does the individual work at the premises of the contractor, or at a place or places they decide?
- Does the individual correct mistakes in the company's time?
- Do you generally work for one client at a time, rather than having a number of contracts?

# IR35 - Definition

- The facts need to be looked at as a whole.
- Within some professions contracts can be quite long in duration, and subcontractors can become part of the “team”.
  - A good indication of apparent employment is where the subcontractor is part of the Departmental teams chart or the internal telephone book!
- One of the key areas to think about is Mutuality of Obligation (MOO). Does the employer/contractor have an obligation to supply on going work to the employee/subcontractor? If the answer is yes, then this is in reality a situation where employment exists, regardless of what a contract may say (Synaptek Case 2003)
- The three main tests should be
  - Substitution
  - Mutuality of Obligation
  - Control of the work undertaken

# Partnerships

- **The rules only apply if**
  - The individual (or their family) are entitled to 60 per cent or more of the profits of the partnership, or
  - all or most of the partnership's income comes from providing services to a single client, or
  - the profit sharing arrangements in the partnership are designed to ensure that the individual receives an amount based on the payments received for their services to clients.

# Managed Service Companies

- From 6 April 2007 all payments received by individuals providing their services through Managed Service Companies will be subject to PAYE
- From the same date the cost of travel from the individual's home to the individual's place of work is not an allowable tax-free expense for workers within MSCs
- It is planned that from 6 August 2007 National Insurance Contributions will also be due on all payments received by individuals working through MSCs
- Also from August, where the PAYE and NICs debts of an MSC cannot be recovered from the company, HMRC may transfer the debt personally to:
  - The company's director; or
  - The MSC Provider
- Debts may be transferred to other third parties from 6 January 2008.

# HMRC – Where do you go?

- **Employment Status Indicator**

- <http://www.hmrc.gov.uk/calcs/esi.htm>

- **The ESI tool should not be used for determining the status of:**

- Office holders (such as company directors and other certain individuals who are appointed to a post)
  - Individuals who provide their services through a limited company (known as IR35)
  - Contracts with agencies to provide services to another person (client).

- **Employment Status Manual**

- <http://www.hmrc.gov.uk/manuals/esmmanual/index.htm>

# CIMA Members in Practice

- **Register if you provide accounting services to anyone that isn't your employer**
- **MIPs are regulated to encourage best practice and promote value to business**
- **MIPs are regulated by bylaws 51 and 52 and by Council Regulation 7**
- **MIPs must...**
  - Have professional indemnity insurance
  - Make arrangements to ensure continuity of work
  - Undertake CPD
- **MIPs registration is annual**
- **Must apply for a practicing certificate after 1 year and within 3 years of registration.**
- **MIPs registration is an additional fee on top of the annual subscription**

# Legal Controls

- **CIMA byelaws for MIPS**
- **Professional Indemnity Insurance**
- **Continuity agreements**
- **Continuing Professional Development**
- **Employers and public liability insurance**
- **Data protection registration**
- **CIMA accountants can't carry out an audit therefore limited to companies satisfying 2 out of the following 3 criteria (for financial years starting on or after 6 April 2008)**
  - have a turnover of no more than £6.5 million
  - have a balance sheet total of no more than £3.26 million
  - Employees < 50
- **Practicing Certificate**

# Start-up Formalities - MIPS

- **Register with the HM Revenue & Customs**
  - Register as an Agent
    - Register as an agent <https://online.hmrc.gov.uk>
    - Obtain Agent ID and password
  - Enrol to handle services for clients
    - Self Assessment
    - Corporation Tax
    - PAYE (FBI2)
    - VAT
    - Stamp Tax
  - Clients authorise you to act as their agent
    - 64-8
- **Register with Companies House (online filing only)**
  - Obtain a security code
  - Clients obtain an authentication code (electronic signature)

# Running the business

- **Client information sheet**
- **Client engagement letter**
- **64-8, FBI2**
- **Software essentials**
  - Microsoft Office (word processing, spreadsheet)
  - Adobe Acrobat (PDF)
  - Sage Line 50 (accounting)
  - Money Manager, IRIS, Quickbooks (book-keeping)
  - Moneysoft Payroll Manager (payroll)
  - VT Accounts (statutory accounts)
  - IR Online, TaxCalc (tax)
- **Time recording (simple diary or sophisticated time system)**

# Day to Day Running

## What will customers want?

- **Depends on the skills you're selling**
- **Small companies and sole traders will often expect you to know everything and won't know the boundaries that exist in larger organisations.**
  - Personal tax (inheritance)
  - Employee grievances
  - Health and safety
- **Some will be very organised, some will have bags of paper**
- **Some will want their returns done on the 7<sup>th</sup> Apr some on the 31<sup>st</sup> Jan**
- **Many will be nice and greatly appreciative of your help and if you do a good job most will pay on time.**
- **Some will want to take you to court!**

# Client & Practitioner Responsibilities

- **Filing system**

- Sales invoices
- Purchase invoices
- Staff expenses
- Company credit card
- Bank statements
- Payroll records

- **Other records**

- Copies of annual accounts
- Copies of VAT and other tax returns
- Copies of payroll returns

- **IT System**

- Software backups
- Proof of internet submissions

# Help & Advice

- **Paper resources**

- Reference manuals
- Accounting magazines
- Guides and bulletins

- **Internet resources**

- HM Revenue and Customs ([www.hmrc.gov.uk](http://www.hmrc.gov.uk))
- Businesslink
- Federation of Small Businesses

# Help & Advice

- **Paper resources**
  - Reference manuals
  - Accounting magazines
  - Guides and bulletins
- **Internet resources**
  - HM Revenue and Customs ([www.hmrc.gov.uk](http://www.hmrc.gov.uk))
  - Business Link ([www.businesslink.gov.uk](http://www.businesslink.gov.uk))
  - Companies House ([www.companieshouse.gov.uk](http://www.companieshouse.gov.uk))
  - ACAS ([www.acas.org.uk](http://www.acas.org.uk))
  - Institute of Directors ([www.iod.co.uk](http://www.iod.co.uk))
  - Department for Trade & Industry ([www.dti.gov.uk](http://www.dti.gov.uk))
  - HelpAccountants ([www.helpaccountants.co.uk](http://www.helpaccountants.co.uk))
- **Advice Lines**
  - Companies House (0870 333 3636)
  - HMRC New Employer Helpline (0845 607 0143)
  - HMRC (0845 010 9000)
  - ACAS (0845 747 4747)
  - Croners

# Backup and Support

- **Where possible don't leave things till the last minute.**
- **Make continuity agreements meaningful. Partner with someone offering similar services and with similar skills.**
- **Tell clients what software you use and where they can get a backup of the data**
- **Help Accountants**
  - A web based information site
  - Technical notes on a range of subjects
  - A sounding board
  - A network of like minded individuals

# Conclusion

## Risks

- You don't win enough business
- You win too much
- Earnings are lower than you hoped
- You make a mistake
- You don't have the knowledge and skills
- Working alone

## Rewards

- It's your business when it goes well the credit is all yours
- Control over the hours, time and locations that you work
- Varied and diverse range of clients and work
- Opportunity to develop your skills
- Depending on how you set yourself up it can be more secure
- Financial reward

# Useful Website Links

## Training

- [www.cpd-resouce.co.uk](http://www.cpd-resouce.co.uk)
- [www.quorumtraining.co.uk](http://www.quorumtraining.co.uk)
- [www.bpp.com/cpd](http://www.bpp.com/cpd)
- [www.cimaglobal.com](http://www.cimaglobal.com)
- [www.accaglobal.com/cpdrealise/](http://www.accaglobal.com/cpdrealise/)
- [www.acas.org.uk/emsobs/acas\\_events\\_new.asp](http://www.acas.org.uk/emsobs/acas_events_new.asp)
- [www.learndirect.co.uk](http://www.learndirect.co.uk)

## Government

- [www.hmrc.gov.uk](http://www.hmrc.gov.uk)
- [www.direct.gov.uk](http://www.direct.gov.uk)
- [www.companieshouse.gov.uk/](http://www.companieshouse.gov.uk/)
- <https://online.inlandrevenue.gov.uk/index.jsp>
- [www.gateway.gov.uk/](http://www.gateway.gov.uk/)
- [www.businesslink.gov.uk](http://www.businesslink.gov.uk)
- [www.bonavacantia.gov.uk/](http://www.bonavacantia.gov.uk/) - dissolved companies
- [www.direct.gov.uk/Homepage/fs/en](http://www.direct.gov.uk/Homepage/fs/en)
- [www.informationcommissioner.gov.uk](http://www.informationcommissioner.gov.uk) – data protection
- [www.opsi.gov.uk](http://www.opsi.gov.uk) – government publications

## Institutes

- [www.cimaglobal.com](http://www.cimaglobal.com)
- [www.accaglobal.com](http://www.accaglobal.com)
- [www.cipfa.org.uk](http://www.cipfa.org.uk)
- [www.icaew.co.uk](http://www.icaew.co.uk)
- [www.icas.org.uk](http://www.icas.org.uk)
- [www.aat.co.uk](http://www.aat.co.uk)

## Accounting Websites

- [www.accountingweb.co.uk](http://www.accountingweb.co.uk)
- [www.accountancyage.com](http://www.accountancyage.com)

## Other Sites

- [www.acas.org.uk](http://www.acas.org.uk) - employment
- [www.duport.co.uk/](http://www.duport.co.uk/) - limited company formations
- [www.moneysoft.co.uk](http://www.moneysoft.co.uk) – accounts and payroll software
- [www.vtsoftware.co.uk](http://www.vtsoftware.co.uk) – accounts preparation software

## Insurances and PLI

- [www.ecsbrokers.com](http://www.ecsbrokers.com)
- [www.cimapi.com](http://www.cimapi.com)