

Business Reality

a real guide to getting your business going

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TWD Accountants

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1. Can you do it?

Self-employment can offer you freedom and flexibility. It gives you the opportunity to manage your own career and take it in a direction you choose.

It also means you have to be disciplined, organised and in the early days be happy to be the Managing Director, Financial Director, HR Consultant, Marketing Manager and the person that gets the job done.

Are you?

➤ **Realistic**

Can your business idea really work?

➤ **Confident**

Do you have faith in your own abilities?

➤ **Determined**

Some days will mean gritted teeth and grim determination

➤ **Committed**

You may need to work 16 hour days, 7 days a week

➤ **Adventurous**

This will be the biggest adventure in your career

Hundreds of thousands of people start their own business every year, if you can agree with the above points, read on to find out how to turn your idea into a Business Reality.

**Only you can make your business work,
this booklet will give you the top tips into making it happen.**

2. Should you do it?

You have the characteristics to set up a business, you have the drive to succeed, the motivation to make it work and the patience to commit to the long term, you now need to ensure your idea will work.

It doesn't need to be a new idea - but good business, good research, planning, financing and hard work all contribute to making your business a success story.

If you have doubts about your idea, now is the time to put the brakes on and review it - to look at your offering and perhaps tailor it to suit your location, your customers around you.

Researching your potential market is essential - it's invaluable to the future of your business. By taking your time to research your market, you will stop the risk of investing in a business which is not viable.

You need to know.

- Who your target market is?
- Who your potential customers are?
- What your target market needs?
- When do they buy your product and service?
- Where they prefer to buy?
- Why will they buy your product?
- Where you are going to locate/How would customers get to you?
- What is your competition doing?
- How do they sell their products/services (try it out!)?

Once you have completed your research, spoken to all the relevant people you can to check your product or service can work in your chosen location - you need to write a Business Plan.

2. Should you do it?

A Business Plan will help you focus your proposed business venture, look at the financial aspects and help sell your vision to others.

By writing a business plan - you will help make your business become reality. Seeing your ideas in black and white will help you fine tune your product or service. By moving systematically step by step through your business process, you can help ensure you will get off to a flying start. It does not need to be an intimidating process - it will help you focus your mind - and it is vital for convincing your bank or other potential investors.

What should you include?

➤ **A Summary**

This outlines in a few paragraphs your whole business, it will create a feel for your business outlining your product or service and its advantages, the opportunity in the market, your team, how the business will be run and a brief overview of financial projections.

➤ **The Business and the Product**

Explain the background, your related experience, the proposed structure of the business. Add how your business will stand out from the competition, include your point of difference. Cover any threats to the business - it shows you are realistic.

➤ **The Market and Competition**

Your market research will be included in this section, including your customers, your competition and your understanding of how the business fits into the market.

➤ **Promotion and Pricing**

How will your customers know about your product or service - this is crucial to success. How will you position your product/service/how will you price it?

➤ **Management**

Include the structure and skills of your team. If you are going it alone, sell yourself, your skills, your experience, your history. It will give you the added confidence that you have the skills and expertise to make your idea work.

➤ **Operations**

Where will you be based?

What equipment/facilities will you need?

You also need to include in this section staff and supplier needs.

➤ **Finances**

Include a realistic sales forecast, your cashflow forecast, how much money you expect to be coming in and crucially going out of the business.

➤ **Financial Requirements**

What are you looking for? How much finance do you want, what will it be used for and here you need to confirm that your business can support any repayments.

Keep your business plan short and to the point, make it look professional and get your friends and family to read it for you - are they excited?

Once your business plan is complete.....Make an appointment with your bank!

3. The Five P's

Apply the **five p's** to every stage of your business planning and you will help ensure your business is ready to go to market.

- **Plan**
- **Price**
- **Product**
- **Promote**
- **Place**

Planning every aspect of your business launch, running costs and even planning each hour of the first day of business will ensure you are prepared for your new start.

Getting the **price** right is crucial to the business, you need to ensure you have covered your direct costs and your indirect costs (such as rent and rates) but that you haven't priced yourself out of the market. Will your customers pay your costs?

Your market research should show that there is a market for your **product**. Do you know whether the market is growing or shrinking? Will you need a great deal of promotion for people to know and learn about your product and service. Have you looked at what process/systems/services would make it easier for customers to do business with your company?

Promotion is about how you market your business to your customers, your competition, your investors. It's about keeping your customers and attracting new potential customers. How can you reach your target audiences cost-effectively? What communication methods best suit your needs? Will you place advertising in specialist press or send out mail-shots?

How you **place** your product in the market sector will have an impact on your cost structure and the type of customers you attract. What will your distribution channels be? What companies will you rely on? How can you safeguard yourself from potential difficulties with suppliers?

4. Getting Started

Financing Your Business

The amount of finance needed will vary from business to business, some will require a minimal amount of investment others significantly more. Sources of finance are varied and numerous, however for the new start up most investors/lenders will require some form of security for loans in excess of £10,000. A driving instructor for example, should have little difficulty obtaining hire purchase finance for a motor vehicle on the other hand, a budding baker will require a more complex loan if premises, machinery and working capital are involved.

Raising Finance

- Seek professional help
- Go to your high street bank (they are still the main source of finance)
- Banks can usually offer tailor made solutions to meet your needs
- Finance provided by high street banks accounts for approximately 75% of all funding
- Can you invest your own savings, can your family help?

Other Sources of Income

- **Contact your local Business Link**
They can offer guidance on any grants and financial incentives available to new businesses in your area.
- **Contact the Princes Trust**
If you are under 30, the Princes Trust is a good source of help and may also offer financial assistance in the form of grants or low or no interest business loans.
- **Contact your Job Centre**
If you are claiming certain benefits i.e. job seekers allowance, there may be assistance available from the benefits agency. For more detailed information contact your local jobcentre.

You need to decide how much money you will need and draw up a budget based on the forecasts in your business plan. It is better to be realistic with your forecasts, don't be over optimistic about your sales in the first six months of your business.

A start-up business may spend more than it earns for the first couple of years and many businesses have seasonal sales patterns that lead to predictable cashflow peaks and troughs - all this needs to be taken into account when you are launching your business and the amount of money you will need.

**Don't forget to allow for contingency funding
- how much extra finance might you need?**

4. Getting Started

What's in a Name?

Choose a name that will create a positive impression and help your marketing. Using your surname will not tell potential customers what you do.

If you are trading as a sole trader or partnership then you do not have to register your business name. The Business Names register was abolished several years ago.

However, it is important to check the business name is not already in use, use the yellow pages and the local business directory.

A certain amount of common sense needs to be applied, if you are opening a photographer's do not call it Jessops, even if your surname is Jessop, as you can run the risk of facing legal action for 'passing off' a name already in use.

Certain names are not allowed - it must not be misleading or cause confusion with existing businesses and certain words are restricted - Royal, British, Bank.

Don't forget if your business is going to develop a website or need email - you need to check your trading name is available as a website/email address.

On Your Marks.

There are three main ways of starting a business:

➤ **From Scratch**

This could be the most difficult to establish and succeed but the most rewarding. Starting from scratch more than likely means your business will grow slowly at first, it will take time to market your products/services and establish a good client base.

➤ **Buy**

If the thought of the unknown scares you, then buying an existing business could be the answer. An existing business will have an accounting history which can be checked, there will be an established client base and a brand awareness. However, professional advice should always be sought before entering into any legally binding agreements.

➤ **Franchise**

This is where you buy the rights to use an established trading name and operating system. However, it is again advised that you take specialist advice regarding the purchase of a franchise.

4. Getting Started

The Business Structure

Once you have decided you want to go ahead, you need to consider how your business will work and the legal implications that will have.

Setting up your business in the right way will help keep costs down and help prevent your working relationships breaking down.

➤ Sole Trader

This is one of the most common and popular ways to launch a small business. If you are a sole trader you are self employed and have no special legal structure. As the name suggests you are the sole proprietor and fully responsible for all the business activity. It is the simplest business structure. Once you have decided to trade in this way your only duty is to inform HM Revenue & Customs.

Once trading you will be responsible for the financial affairs of the business, including book-keeping. It is also your responsibility to ensure your sole trader profits are reported to HM Revenue & Customs on a Self Assessment Tax Return, and any taxes due are paid on time. All of which an accountant can assist you with. It is important to note that in the eyes of the law you and the business are one and the same. That is you are responsible for any debts of the business and will be called upon to repay them if the business cannot.

➤ Partnership

In a partnership, two or more self-employed people work together as partners and share the profits (or losses). The responsibility of running the business can be split between all the partners.

It would also be advisable to seek advice from a solicitor on a partnership agreement, this is a legal document, which sets out what each partner's responsibilities are, the ratios in which both profits and losses are to be shared. It will also make provision for resolving disputes between the partners in the event of any terminal disagreement.

➤ Limited Company

The formation of a company can have two main effects. It separates in law your business and private affairs, offering you protection from any debts built up by the company other than those where the provider has insisted upon a personal guarantee, most usually a bank loan or overdraft. Secondly, there can be tax savings compared to that of a sole trader partnership. Although for companies whose profits are less than £30,000 such savings have been significantly reduced.

There are more formalities involved in both creating and running a limited company. For more detailed information on the responsibilities involved in running a company look at www.companieshouse.gov.uk. For cost implications your accountant will be in a position to outline both tax savings and costs comparisons.

It is possible to change the legal form of your business after you have started trading but any changes will take time and money.

4. Getting Started

Legalities

As a business owner, you need to have a working knowledge of the relevant legal issues and requirements.

This is one area where it is highly recommended you get professional help - ensuring you have ticked all the boxes could save you a lot of unnecessary expense later on in your business life.

In simple terms you need to be aware of laws affecting:

- employment
- the workplace
- insurance

Once you employ staff, you are bound by a number of legal obligations - and getting it wrong can be costly for your business.

Take advice on:

- recruitment
- terms and conditions of employment (the contract)
- wages and working conditions
- employee rights
- discrimination
- maternity and paternity leave
- sickness
- grievance procedures
- termination of contracts
- redundancy

Employment law is complicated - always take advice and be clear on your positions. Make sure you keep all relevant records and your staff have contracts.

Running a workplace - whether you are working from home, a mobile office or renting office space, means that you also have legal obligations. We would recommend you also take advice when setting up your business.

Ensure you have the relevant policies in place for:

- health and safety
- your business and the environment
- planning permission/building regulations
- licences
- data protection

4. Getting Started

Make sure you are insured, your workplace is insured and your people are insured. This is an expensive area and can be costly for a business if it is ignored.

Your insurance checklist:

- **Employers Liability**
This covers you against claims from employees for accidents or sickness
- **Motor Insurance**
All motor vehicles your company uses must be covered
- **Public Liability Insurance**
This covers damages payments and any legal costs to members of the public for damage caused by your business
- **Product Liability**
If you make or sell products, this would cover you for any defects in your products design or manufacture.
- **Professional Indemnity**
This covers you if you provide advice in a professional capacity.

**Top Tip -
Many small businesses can buy insurance in packages
which can cover all the above in one package.**

5. Your Accounts

This section covers your book-keeping, credit, VAT, Tax, National Insurance and PAYE needs.

Keeping Records

From the moment you consider becoming self employed you must keep track of all financial transactions affecting your business. It may also be possible to claim tax relief for some expenses incurred prior to trading. This works on condition that the items of expenditure are used wholly and necessarily in your business, and were incurred in the 7 years prior to trading.

Typically such expenses could include:

- Market Research
- Designing and Testing Your Products/Services
- Computer Equipment & Software
- Website Design

Initial training costs are not normally tax deductible, however further guidance should be sought from your accountant on this matter.

Book-keeping

Good book-keeping is the key to effectively managing your finances and running a successful business. Keeping it simple is the key to understanding your business and doing it regularly makes the job easier.

If you are self-employed, you are responsible for reporting all your income and expenditure to the Inland Revenue in an accurate and honest manner. The key is keeping good records. Good record keeping does not necessarily involve employing a professional book-keeper or investing in expensive computer software - an account ledger, diary notes or a simple computer spreadsheet can be sufficient to record your income and expenditure.

It is recommend the new business opens a separate business bank account. If you prefer to use a credit card, then again, separating your business and personal transactions into two separate cards is recommended.

5. Your Accounts

Separating your business and personal life will make the preparation of sole trader accounts easier and quicker, it also offers a limited amount of protection should the Tax Man wish to enquire into your business affairs.

Every month compare your bank statement with your cash book - both balances should be the same.

The forms of transaction that require recording:

- A record of every sale
- Bank transactions
- Cash payments and cash receipts for every purchase
- Credit card payments

When deciding on how to record your transactions you must make provision to identify which receipts/payments are cash, bank or credit card. With regards cash receipts you must also be able to identify any cash not deposited to the bank but used for sundry cash expenses or general living expenses

Good record keeping is an essential part of running your own business. Failure to maintain good records could result in paying excessive tax.

**Top Tip -
Remember book-keeping records and supporting receipts should be retained for
5 years and 9 months after being submitted to the Inland Revenue.**

Tax, VAT & National Insurance

Tax on Business Profits

If you operate your business as either a sole trader or partnership then you are liable to pay tax and National Insurance on the profits of the business irrespective of how much income you take as a salary - usually called drawings. Tax is generally payable in two installments, these are known as payments on account. Payments of tax are made in both January and July of each year and are based on the previous year's profits.

Limited companies currently pay their tax in full 9 months after the end of the accounting period.

What ever your legal structure it is important to put money aside to pay your taxes. Late payment of tax will always incur interest charges and may lead to legal proceedings being taken if payment is not received at all. To determine what monies need to be put aside to cover your taxes speak to your accountant.

Case Study

John is a budding actor and his first year of business runs to 5 April 2007. His first year profits are £15,000. The tax and national insurance due on these profits is approximately £3000. The tax due has to be paid in full on or before 31 January 2008.

In addition to this John would also have to make a payment on account towards his profits for the year ended 5 April 2008. This payment is always 50% of the previous years tax bill so would be £1,500. This brings the total payable on 31 January 2008 to £4,500. The rules also state that a further payment on account of £1,500 would be due on the 31 July 2008. So when John calculates his next year's tax bill he will have already paid £3,000 in tax. This system of tax payment will then continue as long as John is self-employed.

5. Your Accounts

National Insurance

As a sole trader or partnership you also need to make National Insurance contributions.

These fall into two categories:

- Class 2 contributions - these are paid as a fixed weekly rate of £2.20 and are usually paid monthly via standing order.
- Class 4 contributions - these are profits based contributions are charged at a rate of 8% of profits subject to exclusions and maximum contributions. Any class 4 contributions due are calculated as part of your Self Assessment Tax Return and will be advised by either your accountant or the Inland Revenue.

It is possible to claim either an exemption from or defer payment of these contributions. However, it suggested you speak to either your accountant or the Inland Revenue before doing so.

Value Added Tax (VAT)

If your business sales exceed the annual VAT limit, currently £64,000, then you must register for VAT. There are various rates of VAT information on which can be found in more detail at www.hmce.gov.uk.

You must issue VAT invoices which clearly state your VAT number and VAT details need to be entered separately into your accounts.

If you are required to charge VAT on your sales to customers, you are then entitled to reclaim any VAT you pay to your suppliers, the net amount only being paid to Customs & Excise.

Like all taxes you must register your business for VAT at the right time. Failure to do so will result in a penalty. As a rule of thumb at the end of each month you must look back at your sales for the preceding 12 months, if the income is in excess of £64,000 you must register immediately. If turnover is less than £64,000 but you think that it will exceed it in the coming month, then again you must register immediately. If you are in any doubt contact your local VAT office.

Of course like all taxes there are a number of schemes available to small businesses reduce the administrative burden placed on them. For more detailed information please see the Customs & Excise website or contact your local office.

Case Study

A company makes quarterly sales of £30,000 plus vat of £5,250 = £35,250. Yet to achieve those sales they incurred £20,000 plus vat of expenses £3500 = £23,500. The amount to be paid to Customs & Excise would be £5,250 less £3,500 = £1,750. Whilst this example is very much simplified it does show the basis of the VAT system.

5. Your Accounts

PAYE & National Insurance

Running your own business does mean you have a responsibility to not only pay taxes but also collect it on behalf of the government. Aside from VAT this takes the form of tax and National Insurance payments on behalf of any employees you may have.

If you employ people, you have a responsibility to deduct income tax and national insurance from all payments to employees. If you do take on employees you must inform the Inland Revenue immediately and they will send you a pack containing all the information you need along with calculations on how much tax and national insurance to deduct. As with all other tax payments there are time limits that must be adhered to or penalties will be charged.

Credit

Many businesses rely on credit control to run their business. When starting up your business you need to decide what credit you are going to give your customers, what your payment terms are and how you will manage chasing debts.

You can check other companies credit ratings online and it can cost as little as £50 - it is always worth asking your customers for trading references so you can check their trading history. By spending time doing your research, you will minimise the chances of dealing with bad debtors who could ruin your business.

Key Tax Dates for your Diary

- 31/01** Final submission deadline for most Tax Returns.
- 31/01** The last payment date for the first payment on account for the current tax year.
- 31/01** The final date for payment of tax not being collected via your tax code. Interest will start to accrue from tomorrow if not paid.
- 31/01** Final date for your Tax Office to tell you it intends to make enquiries into the Tax Return that was submitted the year before. This does not apply if it was submitted late.
- 06/01** Next year's tax codes are usually sent out today.
- 28/02** 5% surcharge added to tax due paid by 31 January which is still outstanding.
- 05/04** Last day of the tax year
- 06/04** First day of the tax year
- 06/07** Final date for P11Ds and P9Ds to be issued by employers. This applies to employees' copies and submission to Tax Office.
- 31/07** Final date for submitting late returns for the previous year to avoid second automatic penalty.
- 31/07** Second 5% surcharge added to tax payable by 31 January just passed but still outstanding.
- 31/07** The final date to pay the second payment on account for the tax year just ended.
- 01/08** Second £100 penalty imposed on all outstanding tax returns which should have been submitted by 31 January.
- 30/09** Final date to submit your return if you wish to pay up to £2000 via your tax code, unless you submit your return electronically.
- 30/09** Final deadline for submitting your return if you do not wish to calculate your own tax and want to guarantee that the Revenue notify you of your liability in time to pay.
- 05/10** Final date to tell your Tax Office about any undeclared income if you have not been sent a Tax Return.
- 31/12** Final date for submitting returns via the internet if you wish to have a tax underpayment (up to £2000) collected through your tax code.

6. What's Next?

The numbers you need to know:

Business Registration

Companies House 0870 333 3636 www.companieshouse.gov.uk

Tax, VAT, PAYE and National Insurance

HM Revenue and Customs 0845 915 4515 www.hmrc.gov.uk

Consumer Rights

Office of Fair Trading 08457 22 44 99 www.offt.gov.uk

Education & Training

Department for Education 0870 000 2288 www.dfes.gov.uk

Health & Safety

Health & safety Executive 0845 345 0055 www.hse.gov.uk

Data Protection

Information Commissioner 01625 524510 www.informationcommissioner.gov.uk

Environment

Environment Agency 08708 506 506 www.environment-agency.gov.uk

Business Support/Grants

Business Link 0845 600 9006 www.businesslink.gov.uk
Princes Trust 0800 842 842 www.princes-trust.org.uk
Young Enterprise 01865 776 845 www.young-enterprise.org.uk
Grants www.j4b.co.uk

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