

# Guide to Starting up a Business

 **Smailes Goldie**

*Trusted for generations,  
tailored for today.*



# Contents

Introduction .....	3
Starting up .....	4
The business plan .....	5
Financing the business .....	7
Business structure .....	9
Accounts, bookkeeping and invoices .....	11
Health and safety .....	13
Premises .....	14
Insurance and pensions .....	15
Employing other people .....	16
Pay As You Earn (PAYE) and National Insurance (NI) .....	17
Value Added Tax (VAT) .....	19
Taxation of business profit .....	20

# Introduction

Many people dream about running their own business one day. You may have been made redundant and have the financial resources from your redundancy package, as well as the time, to consider this as an option.

Alternatively, you may want to start a business to become more independent and to reap the full financial reward for your efforts.

Whatever the reason for going it alone, there will be challenges and potential risks – the most significant being the possibility of business failure.

If you are considering running your own business, it is vital that you understand exactly what is involved, what you need to consider in practical terms and what you need to do to stay compliant with HMRC.

As a member of the Institute of Chartered Accountants in England and Wales' (ICAEW) Business Advisory Service, we have the knowledge and expertise to guide you through this process. We also offer a free initial consultation to discuss your business.

**“No matter your age or standing, there is potential to turn a passion or skill from your professional or social life into a bright business idea.”**



# Starting up

There are a number of factors you need to consider to help give your business the best possible chance of success. There are also many questions you need to ask – and answer – before making your decision.

## Commitment

Starting a business is demanding and can be stressful. You'll need to generate enough income to cover overhead costs, personal expenses, taxes, and pension liabilities.

You'll also face decisions you've never encountered before.

## Skills

What skills do you have? You will need a variety, including managerial, financial, technical and marketing. Depending on the type of business you are setting up, you may need to look to a partner or employee for these skills. Alternately you may acquire them through extra training. You will also need the enthusiasm and the determination to succeed.

## Product or service

Is your product or service in demand? While it should have a proven or tested market, you must be careful that it doesn't conflict with the patent or rights of an existing business. What is the strength of the competition and what will their reaction be to your presence?

## Family

You should talk to family and friends about your plans and consider the views of people who will be affected by your decision to set up your own business. You also need to know that you have enough money to live on until you make profits and are able to take a regular wage.

## Funds

Have you enough money to start the business and keep it going? Only well-planned ventures are likely to succeed.

## Initial trading forecasts

Many new businesses fail within the first two years, normally because they run out of money. Even if they have been profitable businesses, lack of finance can cause them to cease trading. You should prepare your initial trading forecasts sensibly and ask an accountant or bank manager to review them, to ensure all likely costs have been identified and your key beliefs are reasonable. Planning can go a long way to eliminating this problem.

## Time

Never underestimate the amount of time it will take to establish and finance a new business. As a rule, you should double the estimated time to allow for increased expense and delayed income, particularly where legal matters are involved, such as leases and contracts.

## Professional advice

Advice from an accountant, solicitor and bank manager is essential. Starting a business is costly in terms of both time and money. It is important to get the best advice so that you can make the right decisions for your success.

**“Never underestimate the amount of time it takes to establish and finance a new business.”**

By considering all these factors and showing you are going about setting up your business in a professional and structured way, you will impress your advisors, which can only give your business a better chance of getting off the ground!

# The business plan

**“Planning without action is futile, action without planning is fatal.”**

- it may be a well-known saying, but it's one you cannot afford to forget when setting up your business.

A sound business plan is key to your success. This not only demonstrates your ambition and vision, it shows that you have considered all the facts. Without one, you are much more likely to fail.

It is not just a way to obtain finance, it will also help you to focus your objectives and discipline yourself. It should help you foresee problems and allow you to take any necessary action before a situation becomes critical.

Once the business is up and running, you should update your plan every month, so that you can review your business more accurately. It's also advisable to have a more major review every six months.

## Length of business plan

This depends on the size and complexity of the proposed venture. Your business plan should show exactly how you intend to start and how you will develop your business. Even if you will be operating on a very small scale, you should at least prepare a cash flow forecast, together with some background notes about yourself and the proposed business.

The business plan is designed to inform and persuade, so you must be honest about the business, its owners and managers, prospects and competitors. You should also consider who will be reading the report, so technical terms should be kept to a minimum, or included in an appendix or glossary. The people reading your business plan will be busy people, so keep it concise too.

## What you should include in your business plan

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

As a minimum the business plan should include the following sections:

- An executive summary.
- Any trading history (if applicable).
- Planned products and markets.
- Your production capabilities (if applicable).
- Management information and history.
- Financial information.
- Appendices or a glossary of terms.

**Executive summary:** This explains the proposed venture, the owners and managers, the purpose of the finance, how much is required and how it will be repaid.

**Trading history:** This is only relevant if you are buying an existing business, or where there has been a past trading history. If you are buying an existing business, you should consult an accountant beforehand.

**Planned products or markets:** Here you state the range of products or services you will be selling, their relationship with other companies' products or services and future developments.

You will need to state the size of the market, the main competitors, their advantages over you and your advantages over them, as well as how you plan to market yourself.

**Production capabilities:** This applies only if you are manufacturing a product. It should include details of minimum and maximum capacities, the costs of increasing capacity, the types of machinery required and levels of stockholding.

**Management information and history:** Details about the management team or owners are crucial for business success, especially at the start. Lenders prioritise management quality, so it's important to highlight their experience in the market, management skills and past successes.

## Financial information

This should include the following:

- Any previous accounts.
- Monthly cash flow forecasts.
- A projected profit and loss account.
- A projected balance sheet.
- Assumptions made in arriving at the projected figures, such as on sales, gross profit margins, costs and contingencies.

You can also provide a review of the major risks in respect of forecasts, along with break-even analysis. A sensitivity analysis can be used to show the effect on profits as a result of changes in the key assumptions.

Finally, the use of appendices will make it easier to read the report and create a better impression.

Our seven steps to a successful business plan can be found at [smailesgoldie.co.uk](https://www.smailesgoldie.co.uk)



# Financing the business

One of the most important jobs you have when setting up your business is to establish how much it will cost. Then you need to decide how you are going to raise that money.

The financial projections in your business plan will identify the amount of finance you need and how it will be used – working capital, purchase of plant, machinery, motor vehicles, acquisition of premises, fixtures and fittings, initial stock or materials, marketing, legal and professional fees, even staff uniforms.

The objective for the financial structuring of your business is to match sources of finance to the business' needs. Buying business premises should be financed by a long-term finance source (most likely a combination of owner's capital and bank term loans) and working capital funded by shorter-term financing, such as a bank overdraft.

Ultimately, most businesses succeed or fail depending on the strength of confidence their bankers have in them. If you continually ignore the better judgement of your bank manager, you will launch a business that is doomed to fail.

A successful business should be able to survive any reasonable period of misfortune. Until that position is reached, the business will be fragile and investors and bankers are more likely to take a cautious view. An adequate equity base is, therefore, essential to allow for this and for additional funds to be raised at a later date for expansion.

Ask yourself:

- Do I understand how much money I need?
- What proprietors' equity is available?
- What is comfortably and conventionally bankable?
- Is there a funding gap?
- What period of finance does the cash flow suggest?
- How will I assign the money?
- What range of working capital requirements are likely?
- What reward does the proposal offer to investors?

## Sources of finance

### Banks:

It is advisable to start with your bank when looking for finance options. Since the global economic downturn, it is now more difficult to get traditional sources of finance, like loans, an overdraft or a credit card, without showing some financial commitment. Find out what your bank can offer to someone setting up a new business.

Banks want their money back, so increased reward for the bank can rarely compensate for the increased risk of your loan. Any money borrowed from a bank needs to be secured by charges on any business assets (if available). For new businesses, personal guarantees are usually required from the owners and you need to carefully consider the consequences of this.

Term loans need to be generously covered by the break-up values (i.e. 'fire sale' proceeds should the business fail) of longer-term assets.

Overdrafts need to be covered by stock and debtors and should be self-liquidating during the year. If they are not, more long-term finance will be required and that may have to be in the form of equity finance.

As well as security, bankers will look at "gearing" and "serviceability". Gearing is the measure of how much borrowed money is tied up in the business compared to the owners' own money – in other words, the debt/equity ratio. It is usually unreasonable to expect banks to put more of their money into a business than the money put in by the owner(s) or by others. Serviceability is the business' ability to cover the interest and capital repayments of the loan.

### Proprietors' equity:

Finance providers will expect the owner(s) to invest personal funds in the business. Most people can manage to raise a modest stake but you should consider risking your own personal assets carefully, especially if it means remortgaging your home.

### Institutions:

For many small business owners, the thought of allowing someone else to own shares in what they see as a family business prevents them from looking at institutional equity investment.

However, there are a number of organisations prepared to take a minority holding in a small business and, with share buy-back schemes, there are increased prospects that the equity/venture capital/business angel investor may get his money back out of the business at a later date. However, you may need to accept that you will not be able to retain 100 per cent ownership of your prospective business.

### Peer-to-peer lending and crowd funding:

Due to the recent reluctance of banks in lending to start-up businesses, peer-to-peer lending and crowd funding have become viable alternatives to traditional loans. This is an unregulated area and often such loans are unsecured, leading to a higher return for the investor/interest cost to the business.

Start-ups may wish to use peer-to-peer lending and crowd funding to prove to banks, who would otherwise not provide financing, the profitability of innovative businesses.

Once a successful trading history has been demonstrated, it will be possible to refinance using bank funding.

### Leasing and hire purchase:

You should also consider leasing and hire purchase. This can be a good way to achieve medium-term finance, as can various types of loans from a range of sources, including specialist finance companies.

### Government sources:

All available sources of finance should be considered, including government grants and other government schemes.

Over recent years, a number of schemes have been established by the government to encourage banks to lend money to small businesses that have exhausted all the normal channels for obtaining finance, where a bank might have been prepared to lend but for the lack of security and/or track record.

There is a wide range of schemes and you should discuss the possibility of obtaining grants and other assistance through these with your accountant.

**“The objective for structuring the finance of your business is to match sources of finance to the business’ needs.”**



# Business structure

One of the first major decisions you will make is about the structure of the business you are setting up. This decision has an impact on the way you will be protected by law and the way you are affected by HMRC rules and regulations.

There are four types of business structure:

- Sole trader.
- Partnership.
- Limited liability partnership.
- Limited company.

## Sole trader (self-employed)

A sole trader's business is one owned and operated by a single person. It is easily set up with no legal formalities. The business accounts are confidential and the public cannot inspect them.

Sole traders are personally responsible for all business debts and liabilities. In other words, if the business ceases to trade and you owe money, creditors can sue you, potentially risking your possessions and your home.

Although a sole trader's business finances are not legally separate from personal affairs, it is advisable to keep a separate bank account solely for business transactions. You must keep accounting records that may be inspected by HMRC from time to time.

Meanwhile, accounts need to be prepared annually and will be used for completing your self-assessment tax return. Sole traders pay Income Tax and National Insurance on profit made, not on monies withdrawn from the business.

A sole trader may also have to register for Value Added Tax (VAT) where their turnover exceeds the VAT registration limit. If you take on employees, you will need to set up a Pay As You Earn (PAYE) scheme.

VAT and PAYE regulations are complex and, if not adhered to correctly, can result in heavy penalties. It will be helpful to seek professional advice to ensure you remain compliant.

You may decide that you want to turn your sole trader business into a limited company at a later date. This can be done relatively easily, although there will be some legal formalities to complete.

## Partnership

This is when two or more people own and run a business and share the profits. Similar to sole trader businesses, the partners are personally responsible for all business liabilities and each may be responsible for the whole, not just their share, if the other defaults. The only exception to this rule is with income tax liabilities. Again, the accounts are confidential and the public cannot inspect them. The accounting records are similar to that required for a sole trader. Partners are also taxed in a similar method to that of a sole trader.

The commitment of each partner can change over time and unless this is reflected in the partnership profit-sharing arrangement, it can cause problems. It is always advisable to have a partnership agreement drawn up by a solicitor so that any potential future disputes can be resolved.

Friendships and business do not always mix. However, when they do work, they are an excellent way to run a business.

## Limited Liability Partnership

A Limited Liability Partnership (LLP) is similar to a traditional partnership except that an LLP is a legal entity in itself. LLP status allows for the liability of partners to be limited in most cases, similar to that of a limited company. Like a limited company the LLP's accounts need to be filed at Companies House and its financial statements are available to the public. However, the tax treatment follows that of a traditional partnership.

## Limited company

A limited company is its own legal entity, which means the personal affairs of the owner(s) can be kept separate to those of the business.

A limited company is responsible for its own debts and must file tax returns and pay tax on any income. Accounts must be filed with the Registrar of Companies and these are available for public inspection. However, for most small companies, it is possible to disclose a lesser amount of information.

The liability of the owners is technically limited to the amount of their share capital invested. However, in practice, people will often require personal guarantees before lending money or supplying goods to the business.

A limited company can be set up for minimal cost, but there are many legal formalities to be complied with in running a company. Once a company has been formed, the shareholders will appoint directors to run the company. This will normally be the main owner(s). They will be paid a salary like any other employee. And as a shareholder, they can also receive dividends. Corporation Tax is paid on the profits of the business before dividends are paid.

**“There are tax advantages of running your business through a limited company. With potential savings of thousands of pounds each year, a tax-efficient payment policy is essential and it is sensible to seek advice from your tax adviser or accountant.”**

The accounting requirements are set out by the Companies Acts and are more onerous than those of sole traders and partnerships and much more complicated. In practice, they are normally prepared by a qualified accountant.

If a limited company's sales and assets exceed specified thresholds, its annual accounts will need to be audited, which will involve an added cost. If a company goes into liquidation, it is possible that the directors will have to meet the liabilities

personally if they have acted fraudulently. Winding up a company can be expensive and is not straightforward.

People often believe that a limited company structure is only for large businesses, but this is rarely the case. Overall, running a limited company offers certain advantages, but you must also be prepared for greater legal and accounting requirements.

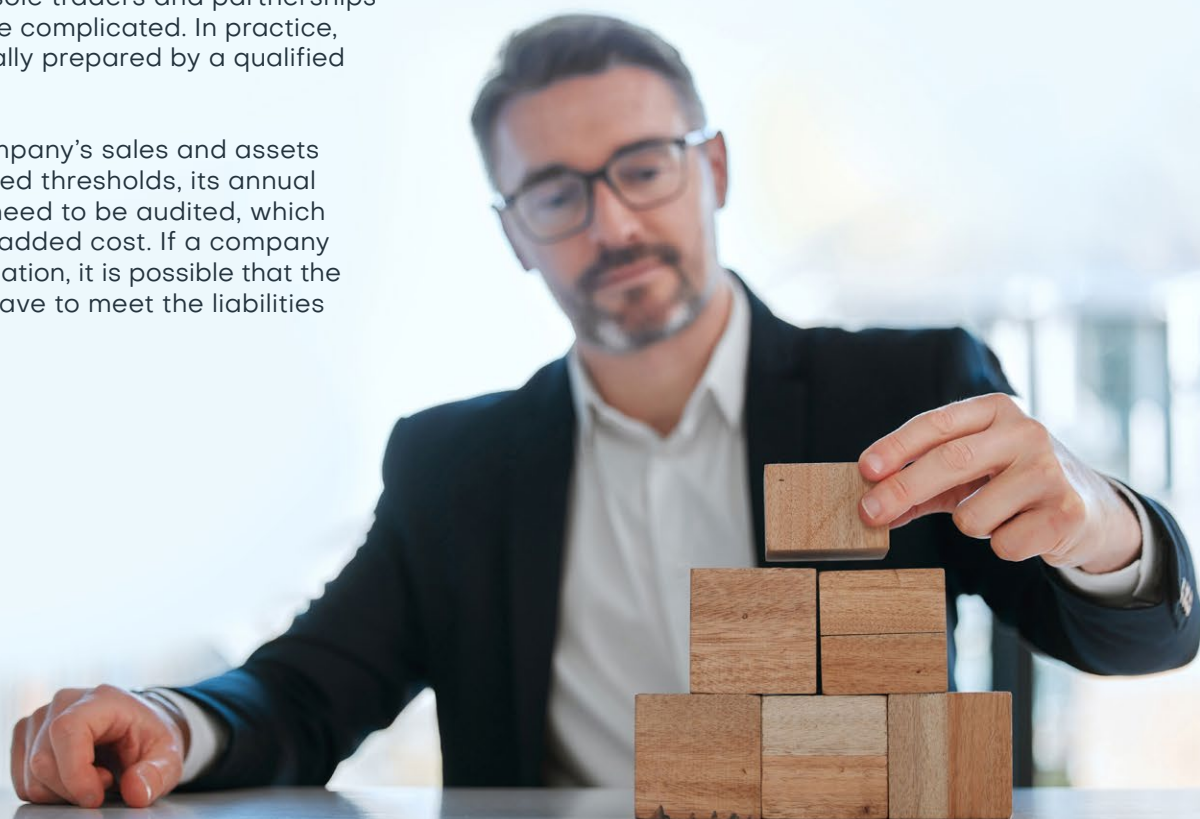
## Your decision

If you decide to operate your business through a limited company or an LLP, you will need to incorporate a new company/LLP.

It takes less than two days and is best done by using a company formation agent who will liaise directly with your accountant. It is also advisable to form the new company/LLP in your trading name at the outset.

The availability of names can be found by contacting Companies House or through your company formation agent.

If you are setting up your business as either a sole trader or partnership, there are no legal constraints on starting your business. However, you will need to consider the tax implications as set out in later sections.



# Accounts, bookkeeping and invoices

Your financial records are an essential part of running any business and the need for well-organised records cannot be over-emphasised. Your books and financial statements show you how you are doing and can give you an early warning if certain issues need addressing.

You need to decide who will keep the books of your business. Will you do it yourself? Will you employ a part-time or full-time bookkeeper?

You may even consider outsourcing the work to ensure your records are kept up-to-date and that your business remains compliant. The legal structure of your business will define the type of accounting records you need to keep.

## Self-employed

If you are self-employed as a sole trader or partner, HM Revenue & Customs leaflet RK/BK1 states that you must:

- Record all sales and other business receipts as they come in and retain the record.
- Record all purchases and other expenses as they arise and ensure that you have and retain invoices for them.
- Keep a record of all purchases and sales of assets used in your business.
- Record all amounts paid into the business from personal funds.
- Record all amounts taken out of the business bank account, or in cash for you or your family's personal use.

## Limited company or LLP

If your business is run through a LLP or limited company, the accounting records must comply with the requirements of the Companies Act 2006. This states that proper books of account should be kept with respect to:

- All money received and paid and the purpose to which it was applied.
- All sales and purchases of the company.
- All assets and liabilities of the company.

As well as complying with legal obligations, the directors must establish a sound and informative accounting system for their own commercial purposes.

Successful businesses are those where the directors are regularly updated on the company's financial position and understand the financial implications of their decisions.

The accounting system adopted by a company will depend on its needs. Your accountant will advise on the standard records you need to maintain.

It is essential that management information is prepared on a regular basis, whether monthly or quarterly.

You should consult with your accountant before trading starts to ensure that your accounting system provides the information and controls required by the Companies Act 2006, as well as for your particular needs.

It will also be necessary to establish the flow of financial documents, their filing and retrieval within the accounting system. Under company law, most small companies are now exempt from audit. However, you should always take advice from your accountant on whether an audit is necessary or advisable, even if not required by law.

## Filing accounts with Companies House and HMRC

Private companies and LLPs have nine months from the end of their accounting period to file a copy of their accounts at Companies House. However, special time limits apply in the first period following incorporation.

Meanwhile, small and medium-sized companies can claim disclosure exemptions and opt to file abbreviated accounts to limit the information put into the public domain.

It is now compulsory for companies to submit their Corporation Tax return, supporting computations and statutory accounts on-line to HMRC in iXBRL format. Smailes Goldie's in-house tax compliance team can help you with this. Further details on filing your tax return can be found later in the guide.

At the moment, Companies House does not require accounts to be filed in this format but it can receive and process company accounts produced in iXBRL.

## Statutory records

The Companies Act 2006 requires limited companies and LLPs to keep certain statutory records and registers. These include:

- Share registers.
- Register of mortgages and charges.
- Register of debentures and holders.
- Register of members and directors.
- Register of secretaries.
- Company minutes.
- Copies of issued share certificates.

These registers will be supplied by the company formation agency and should be kept at the company's registered office. The register of members and directors' interests may be kept elsewhere, but a notice must be sent to the Registrar of Companies.

**“Many firms of accountants and solicitors have experts in company secretarial practice and will be able to give you guidance on this.”**

## Letterheads

When designing your company letterheads and other documentation, there are several legal requirements you must follow to avoid the expense of having them reprinted.

### For companies:

The business letters and order forms of a company must clearly show:

- The full name of the company.
- Its country of registration.
- Its company registration number.
- The address of its registered office and place of business (if different).

It is not essential to name the directors of the company but if they are specified, they must all be named. If the directors are named, the nationality must be noted if they are not EU nationals. All these details also need to be included on the company's website.

The name of the company must appear on its notices, official publications, bills of exchange, promissory notes, endorsements, cheques and orders for money or goods, invoices, receipts and letter of credit.

An easy-to-read name plate for the company must also appear outside each office (including the registered office) or place of business, in a clearly visible position.

### For partnerships:

All business letters, written orders for services, invoices, receipts and written demands must either state clearly the name of each partner and the address within Great Britain where any document may be served upon the partner or alternatively state where a list of partners may be inspected.

A notice containing the names and addresses of all partners must be prominently displayed in any place where the partnership business is carried on.

### For sole traders:

As a sole trader, you do not have to name your business after yourself. You can choose any name. However, while you do not have to register the business name, you must show the name of your business and the address from which it is conducted on all your business documentation.

## Bank accounts

While not a legal requirement, it is certainly advisable to have a business bank account.

If your business is trading through a limited company, you will need to complete a mandate with a copy of the Certificate of Incorporation. You may also be asked to provide a copy of the Memorandum and Articles of Association and other corporate information.

You will also need to think about cheque signatories and online banking authorisation.

# Health and safety

It is essential for all businesses, especially manufacturers, to seek help and advice from a qualified health and safety consultant. Businesses also need to budget for expenditure on health and safety provision in order to avoid unexpected and unwelcome costs.

Health and safety at work is concerned with safety legislation, in particular to the provision and maintenance of safe plant and systems of work, and covers all machinery, equipment and appliances used.

The Management of Health and Safety at Work Regulations 1999 explain in greater detail exactly what employers are required to do to manage health and safety under the Health and Safety at Work Act.

The Health and Safety Executive (HSE) leaflet Health and Safety Regulation – a Short Guide will answer many of your questions about the requirements of the act.

Employers with five or more employees need to record the significant findings of any risk assessment. Besides carrying out a risk assessment, employers also need to:

- Make arrangements for implementing health and safety measures identified as necessary by the risk assessment.
- Provide clear information and training to employees.
- Work together with other employers sharing the same workplace.

- Appoint competent people (often themselves or colleagues) to help them to implement the arrangements.
- Set up emergency procedures.

**“HSE inspectors can advise you on health and safety matters and the HSE also publishes a wide range of material. If a business is unprepared, a visit from an HSA officer can result in considerable additional expense.”**

Failure to comply with certain regulations may be a criminal offence and, again, additional expenditure may be incurred to rectify any breach. Meanwhile, an industrial accident may result in compensation, time off and lost production.

*PLEASE NOTE: This information is intended as general guidance and is not intended as professional advice. Please consult a specialist for expert advice.*



# Premises

Unless you are planning to work from home one of the key decisions to make is where you're going to operate your new business from. Getting the right premises at the right price will be an essential factor in your future success.

There are a number of issues you need to consider before making your decision, including:

- Is it easy to find? What parking is there?
- Do you need meeting rooms and/or reception area?
- What storage space do you need?
- Are there competitors in the area? Is this a good or bad thing?
- Will customers and/or suppliers be coming to your premises?
- What services need to be supplied to the premises?
- If you are renting space on a business park, are there any shared facilities?
- What equipment, furniture and fixtures do you need to buy or hire?

## Should you buy or lease?

### Buying:

Buying a commercial property gives you the freedom to use the building as you wish, within the law. However, it may be difficult to get a commercial mortgage and if you do it may require a substantial deposit. As with any mortgage, it also comes with financial risks if you are unable to make your payments. You need to know that you can generate enough profit and cash to make this a viable option.

### Leasing:

Many start-ups take out a leasehold on a property. A lease will list all the rights and obligations of your business. However, leases can be lengthy and complex legal documents and it's important to take expert guidance from your solicitor before you proceed.

Alternatively, you may decide to occupy office space under licence. This way, you won't have any initial legal costs, it will be easy to move out and you will have the flexibility of working in a rented space. On the downside, it means you have no security of tenure. For a young business with a limited trading history, a landlord will often ask for personal guarantees from the directors.

You should consider the following:

- You may be able to negotiate a rent bond/ deposit instead of a personal guarantee.
- There is no tax relief on legal costs incurred regarding new lease.
- Landlords will try to insist that you pay their legal fees – avoid this if possible.
- You may be able to negotiate a rent-free period. This can be a bartering tool when discussing the payment of the landlord's legal fees.
- Guarantees last for the entire lease, even if sub-let. Unless agreed otherwise, a landlord can pursue legal action for unpaid rent or property disrepair against the current tenant, original tenant, and all guarantors, including those of successive tenants. It's important to consult a solicitor before signing.

## Other considerations

### Company's rights:

If you are going to lease a property make sure you understand the company's rights to under-let or assign. You should avoid any situation that requires a tenant to sell the lease back.

### Rent review:

Check the rent review frequency (usually every three, five, or seven years) and ensure that any property improvements won't lead to higher rent. Reviews should be based on the actual and permitted use of the property, not the landlord's determined use, to avoid high rents.

### Length of lease:

Check the lease duration and any break clauses that allow early termination. Also, review any restrictive covenants that could impact future development or finding a new tenant.

### Planning:

Make sure that the way you plan to use the premises conforms with the existing planning consent and that you are being rated correctly.

### Fire precautions:

These are an essential element when occupying premises. If in doubt, you should consult your local fire officer.

# Insurance and pensions

There are two types of insurance cover – compulsory cover and voluntary cover.

## Compulsory cover

By law, a business must have the following third party insurance:

- Employers' liability, covering personal injury and damage to the personal property of their employees.
- Motor insurance for all vehicles.

## Voluntary cover

It's also usually a good idea to get further advice and quotations from a qualified insurance broker or an independent financial advisor on other insurances, including:

- **Public liability:**  
Personal injury and damage to personal property of the public.
- **Property damage:**  
Fire and theft. It is important to understand that insurance values should be based on the rebuilding cost of premises, which may be considerably more than the market value. If less than the rebuilding cost is insured, a claim under the policy will be restricted. This could leave a material element of the businesses' property uninsured.
- Business interruption.
- Consequential loss of profits resulting from fire, theft, etc.
- Bad debt cover.

- Book debts cover, where sales ledger records are destroyed by fire, etc.
- Computer damage cover, where damage sustained incurs additional operating costs or loss of profits.
- Goods in transit cover.
- Product liability insurance, particularly where the business manufactures consumer products.
- Further specialist insurance cover specific to the business.
- Where the business's future is dependent on certain individuals, life, critical illness, permanent health (earnings replacement) and key employee insurance should be taken out.

All insurance policies are contracts made in good faith and so it is absolutely vital that full disclosures are made to ensure the contract remains valid.

## Pensions

You should discuss with your accountant what provision you could or should make for your own and any employees' pension arrangements. Under the government's scheme all employers are required to automatically enrol eligible workers into a qualifying workplace pension scheme and make contributions.



# Employing other people

When you employ someone, you immediately have a number of legal responsibilities to them. These can include the terms and conditions of their contract, matters of equality and discrimination and whether or not they have a right to work in the UK. You also have a responsibility to pay your employees on time and to make the correct deductions from their pay.

## Contracts of employment and employment law

A contract of employment exists as soon as an employee accepts an employer's terms and conditions and starts work. Basic terms of employment must be issued in writing within two months of that employee starting work, otherwise a business is liable to pay compensation. This contract, to be signed and dated by you and the employee, should contain the following:

- Full names and addresses.
- Start date.
- Job title and/or description.
- Details of pay, including holiday entitlement and sick pay.
- Place of work.
- Hours of employment.
- Disciplinary, grievance and appeal procedures.
- Pension information.
- Notice periods.
- Duration of contract (if not permanent).
- Whether the employee is expected to work outside of the UK for more than a month.

An employer has statutory obligations and an employee has statutory rights. If a contract of employment isn't clear about an employee's rights in a particular area, it doesn't mean those rights don't exist.

As well as contractual matters, employers must also comply with national minimum wage rules and a wide range of employment legislation also exist. It is therefore essential

to take expert advice from an HR professional or solicitor to ensure you are clear about your responsibilities as an employer.

Company directors should also have a director's service agreement.

## Payroll

When you employ other people, an efficient payroll system is essential to the running of any business. It is your responsibility to calculate:

- PAYE.
- National Insurance.
- Overtime pay.
- Student loans.
- Holiday pay.
- Sick pay.
- Maternity pay.
- Pension contributions.

As well as other items, depending on the individual employee.

Payroll can be complicated and is often time-consuming, so you may want to consider outsourcing this task to an expert – even more so now that the Real Time Information (RTI) system is in force.

RTI requires all employers to submit details of salary payments and deductions as they are made, rather than reporting at the end of the tax year as they did previously.

Further guidance on employment matters and payroll services can be found at [smailesgoldie.co.uk](https://www.smailesgoldie.co.uk)

# Pay As You Earn (PAYE) and National Insurance (NI)

As an employer, you are responsible for deducting income tax and NI from your employees under the PAYE regime and for keeping adequate records of how you have done this. You are also responsible for making adequate returns to HMRC every time a payment is made to an employee.

## First steps

The first thing you must do is to register with HMRC by:

- Phoning HMRC's employers helpline on **0300 200 3200**
- Using HMRC's online registration service at [www.online.hmrc.gov.uk/registration](http://www.online.hmrc.gov.uk/registration)
- Emailing HMRC for details visit [www.gov.uk/topic/business-tax/payee](http://www.gov.uk/topic/business-tax/payee) HMRC will then send you a new employer's pack, which includes information on the basic forms you will need to complete and file.

## Real Time Information (RTI)

It is mandatory for employers to submit their payroll information electronically in real time, every time an employee is paid. This allows HMRC to check that the correct deductions have been made during the tax year and reduce the volume of errors and corrections at year end.

If you employ less than nine people, you will be able to use HMRC's basic online tools to help you do this. However, all other businesses have to buy RTI-compliant software or outsource the work to an accountant providing a payroll bureau service, which can be more cost-effective than doing the work in-house.

## Other forms

You should also familiarise yourself with the following forms:

- **New starter checklist:** New employees details.
- **P11D:** Reporting benefits in kind.
- **P46 (car):** Notifying HMRC when providing or withdrawing a company vehicle. This should be completed on a quarterly basis.
- **P45:** Details of employee leaving.
- **P14/P60:** End of year return and employer's certificate.

## Employment status

You must also establish whether an individual is employed or self-employed. This determines what payments should be made.

HMRC has, in certain areas, reclassified some people claiming to be self-employed as employed. To that end, they have issued guidance on employment status in ES/F1 and ES/F2, covering the following:

- The degree of control and supervision exercised over the individual's work.
- Whether services are performed mainly or wholly for one business.
- Where the duties are carried out.
- Terms of pay, holiday time, pension arrangements and other benefits.
- Whether the work has to be performed personally, or whether a substitute may be supplied.
- Provision of items of equipment
- The financial risk and responsibility for loss undertaken by the individual.

HMRC insists that if there are any doubts about anyone's employment status, the situation must be clarified and expects to be consulted in difficult or uncertain cases.

The Employment Status Indicator can help you and by establishing employment status, you will also avoid the possibility of having to pay back tax and NI that you may have failed to deduct from an employee's remuneration.

## Paying PAYE and NI

PAYE and NI should be paid to HMRC by the 19th of the month, after the month the salaries were paid. When the amount of tax and NI is less than £1,500 per month, you can apply for a quarterly accounting period. Again, this should be paid by the 19th of the month following the last month in the quarter.

Special attention should be given to benefits that are not immediately taxed through the PAYE system, like a car. HMRC require a P11D form to be submitted each year for all directors and employees receiving benefits in kind.

Meanwhile, any changes made in the provision of company cars must be completed quarterly on form P46 (car) on 5 July, 5 October, 5 January and 5 April. Form P11D should still be submitted annually in addition to the P46 (Car) forms.

## Sole traders or partnerships

If you are setting up your new business as a sole trader or as a partnership, your tax and NI will be based on your profits, so you will not need to deduct PAYE and NI on your drawings.

**“It is always a good idea to get help and advice about PAYE and IN contributions from your accountant. Getting it right can be complicated and time-consuming, but getting it wrong can prove to be very expensive.”**

# Value Added Tax (VAT)

VAT is charged when a VAT registered business sells to either another business or to a non-business customer. However, when VAT registered businesses buy goods or services they can generally reclaim the VAT they've paid.

## Registering for VAT

If your rolling 12 month turnover exceeds the VAT threshold of £90,000, VAT registration is compulsory. If it doesn't, then it may still be beneficial to register voluntarily, even though you're not legally required to do so, because it allows you to recover the VAT you have paid. Registration can be applied for online or by completing form VAT1.

## What happens if you don't register for VAT?

If you are liable and don't register, HMRC will backdate your registration and you will have to account for the output tax on turnover since that date, even if you will not charge VAT to your customers.

Late notification can also lead to severe penalties. It is therefore essential that you deal with VAT registration promptly – ask your accountant for advice.

## How it works

Your business will be required to account for VAT on goods and services sold to customers (output tax) and is entitled to claim credit for VAT incurred on goods or services purchased from suppliers (input tax). If output tax exceeds input tax a payment is due to HMRC, but if input tax exceeds output tax you can claim a refund.

There are various options available to businesses when deciding how to account for VAT. In certain circumstances, simplified schemes are available. It is, therefore, always advisable to talk to your accountant about the most appropriate scheme for your business.

Usually, VAT has to be accounted for when sales invoices are issued or when purchase invoices are received by a business. However, if the annual turnover is below £1,350,000 there is another option – to account for VAT on a cash basis, determined by the actual date of the cash receipts and payments. This helps to simplify VAT for small businesses, improves cash flow and provides built-in bad debt relief.

## Flat Rate Scheme

The Flat Rate Scheme is intended to simplify the administration of VAT for businesses with an annual turnover limit of £150,000. In some cases, it can save a business money. It may not be the right scheme for your business and, if you get your numbers wrong, you could end up paying much more in VAT than necessary.

## Filing returns

VAT returns are prepared quarterly and it's a good idea to ensure the last quarter coincides with your year end, to reduce the amount of accounting you need to do. Businesses with an annual turnover of less than £1,350,000 can apply to join the annual accounting scheme, which allows them to file just one VAT return a year.

VAT returns must be filed electronically via a Making Tax Digital compliant piece of software and must be submitted within one month and seven days of the end of the period to which it relates. Similarly, any tax due must be paid electronically within the same timeframe. Failure to meet VAT deadlines can result in heavy penalties for both incorrect or late returns or payment.

## Rates of VAT

There are three rates of VAT, depending on the goods or services the business provides:

- **Standard:** 20 per cent.
- **Reduced:** 5 per cent for certain supplies of fuel, power and sanitary goods.
- **Zero:** 0 per cent for food (not restaurant meals or hot takeaways), newspapers and books children's clothing and passenger transport.

There is also an exempt rate, while certain supplies fall outside the scope for VAT.

VAT is extremely complex. Professional advice should be sought from your accountant or tax advisor to ensure you get it right and avoid harsh penalties. Further guidance on VAT and the current rates and thresholds can be found at [smailesgoldie.co.uk](https://www.smailesgoldie.co.uk)

# Taxation of business profit

A company pays corporation tax on its taxable profit, while sole traders or partners in a partnership pay income tax on the profits earned. You must notify HMRC of your existence online or in writing within three months of being active.

## Companies

Corporation tax is a tax on the taxable profits of limited companies and some organisations, including societies, associations, co-operatives, clubs, charities and unincorporated bodies.

Companies are charged at the rate applicable during the financial year 1 April – 31 March.

If a company's accounts span two financial years, the profits are shared between the two financial years. The rates are set out in the table below:

Year commencing	Rate
April 2024	25%*
April 2025	25%**

\*Main rate is 25 per cent but there is also a small profits rate of 19 per cent.

\*\*This was confirmed in the Autumn Budget.

## Corporation Tax self-assessment

A company is required to complete a Corporation Tax return and calculate its own tax liability. If you are in this position, you must make sure you pay your company's tax by the normal due date, generally nine months after the end of the accounting period. You must also ensure you submit your company's tax return, computations and a set of full financial statements electronically in the iXBRL format within 12 months of the end of the accounting period. If you don't, penalties will be charged.

## Sole traders/partnerships

Sole traders and partners in partnerships are charged income tax at the rate applicable during the financial year 6 April – 5 April. The table below shows the tax rates you pay in each band if you have a standard Personal Allowance of £ 12,570.

Tax Band	2025/26 Taxable income	Rate
Personal Allowance	Up to £12,570	0%
Basic rate	£12,570 to £37,700	20%
Higher rate	£37,700 to £125,140	40%
Additional rate	Over £125,140	45%

Income tax and Class 4 NI contributions must be paid by 31 January following the end of the tax year (5 April) or you risk incurring penalties from HMRC. You must also file a Self Assessment Tax return by the same date each year, if you file it online.

However, you must remember that if your income tax and Class 4 NI contributions are in excess of £1,000 a year, you will have to make payments on account. This means that on 31 January and 31 July each year, you will have to pay half of what you think your next tax bill will be. Calculations for these amounts are based on the previous year. It's very important to work out what this might be and plan to save towards it.

Compulsory Class 2 National Insurance for sole traders was abolished from 6 April 2024. For sole traders with profits less than £6,845 Class 2 National Insurance can still be paid voluntarily. Meanwhile, Class 4 contributions are levied at six per cent on profits between £12,570 and £50,270 and two per cent above £50,270 (using 2024/25 rates).

Tax legislation is extremely complex and late filing of returns or mistakes can lead to heavy penalties. It is, therefore, always advisable to speak to your accountant for specific advice about your business.

**DISCLAIMER:** *The matters discussed in this guide are by necessity brief and comprise summations and introductions to the subject referred to. The content of this guide should not be considered by any reader to comprise full proper legal advice and should not be relied upon.*

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