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New Business Kit 2026/27

The Financial, Tax and Accounting Considerations of Starting a New Business

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Before Starting Up

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

Whatever the reason for considering setting up in business, several dangers exist.

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

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

Consider the views of your family and friends. Their support is essential. It is important they understand that the administrative and financial requirements of running a business can be time consuming and stressful.

Success in business depends on many factors; most important is the need to critically review all aspects of the business proposition before progressing too far.

This kit highlights many of the practical points that require consideration before trading begins. It cannot cater for every possibility and decisions should be supported by appropriate professional advice.

For information of users:
This kit is published for information only. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice from a partner or senior member of this firm. No responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this kit can be accepted by the partners of the firm.

Notes and To Do's

Reference	Matter	Cleared

Chapter 1 - Selecting a Legal Entity for Your Business

One of the first major decisions you will have to make as you start your new business is the form of legal entity it will take. To a large degree, this decision may be dictated by the way you have organised your operations and whether you intend to work on your own or in conjunction with others.

The form of entity you choose can have a significant impact on the way you are protected under the law and the way you are affected by taxation rules and regulations. There are four basic forms of business organisation. Each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

Sole Proprietorship

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

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

Partnership

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

The rights, responsibilities and obligations of partners are typically detailed in a partnership agreement. It is a good idea to have such an agreement for any partnership.

A partnership is a legal entity recognised under the law and, as such, it has rights and responsibilities in and of itself. A partnership can sign contracts, obtain trade credit, and borrow money. When a partnership is small, most creditors require a personal guarantee of the general partners for credit.

A partnership is also required to file an income tax return. A partnership typically does not pay income tax; the information from the partnership tax return is combined with the personal income of the partners to determine their overall tax liability.

Limited Liability Partnership

The Limited Liability Partnership ("LLP") offers limited liability to its members but, like a traditional partnership, is tax transparent and offers flexibility in terms of its internal organisation.

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

The members of the LLP are those persons registered at Companies House as members. These members can be individuals, limited companies or even another LLP.

The main "price" paid in return for limited liability is public availability of financial statements. An LLP must file accounts (prepared on a "true and fair view" basis) annually at Companies House, the same as a limited company.

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

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

Up until 6 April 2014, all members of an LLP were taxed as self-employed individuals. However, from 6 April 2014, certain members (mainly those deemed to be receiving a salary) are now required to be taxed as employees with PAYE and Class 1 National Insurance Contributions ('EEs and 'ERs) being payable on their remuneration from the LLP.

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

Limited Company

A limited company is a separate legal entity that exists under the authority granted by statute. A limited company has substantially all of the legal rights of an individual and is responsible for its own debts. It must also file tax returns and pay taxes on income it derives from its operations. Typically, the owners or shareholders of a limited company are protected from the liabilities of the business. However, when a limited company is small, creditors often require personal guarantees of the principal owners before extending credit. The legal protection afforded to the owners of a limited company can be useful.

A limited company must obtain approval from Companies House to use its proposed name. A limited company must also adopt and file a Memorandum and Articles of Association, which govern its rights and obligations to its shareholders, directors, and officers.

A limited company must file annual tax returns (CT600 Company Tax Return) with HM Revenue & Customs.

Incorporating a business allows a number of other advantages such as the ease of bringing in additional capital through the issue of share capital or allowing an individual to sell or transfer their interest in the business. It also provides for business continuity when the original owners choose to retire or sell their shares. From a tax perspective, the act of incorporation can create advantages via:

- Selling the business assets to the company at market value and paying Capital Gains Tax (CGT) on the first £1 million of gain at 18% in 2026/27, with the benefit of business asset disposal (BAD) relief (previously entrepreneurs' relief), instead of the normal rate of tax when funds are withdrawn from a limited company. Once the £1 million lifetime limit has been used any additional capital gains on disposal are taxed at 24% if the shareholder is a higher rate taxpayer. Note that BAD relief is not available against the gain attributable to goodwill transferred on incorporation.

- Saving National Insurance contributions (NICs) by drawing profits as dividends rather than as salary. This advantage has lessened due to recent NICs cuts and a reduction in the tax-free dividend allowance. Please talk to us about the best mix of salary and dividends for your personal circumstances.

Should you decide to incorporate your business venture, you should seek advice from us. We can also assist in forming the company.

Business Structure - The Pros and Cons

Company	Sole Trader/Partnership
A company must be formally incorporated with a written constitution in the form of a Memorandum and Articles of Incorporation. There is, therefore, an initial setup cost.	There are no formation costs, but a written partnership agreement is advised.
Companies are governed by the Companies Acts. A company must: - - Keep accounting records - Have the accounts audited* - File accounts and an Annual Return with the Registrar of Companies. This information is available to the public. - Keep Statutory Books showing details of shareholders and directors *Your company may qualify for an audit exemption if it has at least 2 of the following: • An annual turnover of no more than £15 million • Assets worth no more than £7.5 million • 50 or fewer employees on average For financial years beginning prior to 6 April 2025, different size limits apply.	Sole traders and partnerships are not required to file their annual accounts, although Limited Liability Partnerships must file accounts at Companies House. However, annual accounts information needs to be submitted to HM Revenue and Customs by sole traders in their self-assessment tax return or in the partnership tax return.
Companies may have greater borrowing potential. They can use current assets as security by creating a floating charge.	Sole traders and partners are unrestricted in the amount and purpose of borrowings but cannot create floating charges.
Shares in a company are generally transferable - ownership may change but the business continues.	
Incorporation does not guarantee reliability or respectability but gives the impression of a soundly based organisation. Some may feel there is a prestige attached to directorship.	The unincorporated business does not carry the same prestige.
Tax is payable on directors' remuneration paid via PAYE on the 19th of the following month. Tax is paid by shareholders on dividends under the self-assessment rules, although the first £500 of dividends are currently tax free each year. Unless profits exceed £1,500,000, corporation tax is payable 9 months after the year-end.	For a sole trader or partnership, tax is generally paid by instalments on the 31 January in the tax year and the 31 July following the tax year. For an ongoing business, the tax for 2026/27 is payable as follows: first payment on account on 31 January 2027, second payment on account on 31 July 2027, with any final balance due on 31 January 2028. For a start-up business, this is slightly different and covered in more detail later in this publication.

First year losses in a company can only be carried forward to set against future profits.	Start-up losses generated by a sole trader or a partner in the first four tax years can be set against other income of the year or carried back to the three previous tax years, potentially resulting in a tax refund.
The small companies rate of corporation tax is 19% where profits are less than £50,000 a year. The main rate is 25% where profits exceed £250,000 a year. A marginal rate of 26.5% applies for profits between the two thresholds.	The personal allowance gives most individuals £12,570 of tax-free income. Profits are taxed at 20% on taxable income up to £37,700 for 2026/27 and 40% thereafter with a 45% rate on income over £125,140.
There is both employers' and employees' national insurance payable on directors' salaries and bonuses. The NI charge is greater than that paid by a sole trader/partner, but there is no NI charge on dividends. There is also a £10,500 Employment Allowance to set off against employers NIC although that is not available where the director is the only employee.	A partner/sole trader will pay Class 4 NI dependent on the level of profits: 6% on profits between £12,570 and £50,270 and 2% thereafter (2026/27 rates).
Where the business owner is both a shareholder and a director, they have a certain amount of flexibility to control their personal tax liability as they only pay tax personally on what they draw out of the company. Many director shareholders pay themselves a low salary to minimise national insurance and extract the bulk of their income by paying themselves dividends. Where they are in receipt of child benefit, they are able to minimise restriction of that benefit by keeping their income below £60,000.	Sole traders and partners are taxed on their share of business profits irrespective of the amount that they draw out of their business. Consequently, they are less able to control the level of their taxable income compared to a director/shareholder of their own company.

Chapter 2 - Registering with the Tax Authorities

A significant task for the new business owner is ensuring that the business is properly complying with the extensive tax and information filing requirements imposed by the various authorities. Problems and penalties can arise if the new business is not registered with the appropriate tax authorities within set deadlines. While this chapter is not intended to be an all-inclusive list of filing requirements, it summarises some of the important requirements common to most businesses.

HM Revenue & Customs (HMRC) is moving towards electronic forms and notifications via the internet. Paper forms are still required in some instances. In the following section we provide links to both downloadable versions of forms and the web links to apply online for various services.

HM Revenue & Customs

You must give HMRC specific information about your company within 3 months of starting up in business. You may get a penalty if you don't.

You can do this online once you've got your company's Unique Taxpayer Reference (UTR):
https://www.gov.uk/limited-company-formation/set-up-your-company-for-corporation-tax

HMRC will use this information to work out when your company must pay Corporation Tax.

You can also register online with HMRC to notify self-employment:
https://www.gov.uk/register-for-self-assessment

You need to register by 5 October following the end of the tax year you need to send a tax return for. If you're late, you won't get a penalty as long as you pay your Self-Assessment bill in full by the deadline.

HM Revenue & Customs - VAT

You need to consider if it is beneficial to be VAT registered from the outset. The pros and cons are discussed in Chapter 4. You can usually register for VAT online. In some situations you may need to register by post.

To register online go to https://www.gov.uk/register-for-vat/how-register-for-vat

More information can be found at the HMRC website:
https://www.gov.uk/government/collections/vat-detailed-information

Please contact us if you need any help.

Making Tax Digital (MTD)

The Government requires all VAT registered businesses to keep their records in a digital format and submit their VAT information to HMRC quarterly as part of the "Making Tax Digital" project.

This means that VAT registered businesses need to keep their accounting records in a digital format that links to the HMRC computer system. VAT Notice 700/22 sets out the rules in detail.

We can help you choose a suitable computerised accounting system for your business that satisfies the digital accounting rules.

Making Tax Digital does not just affect VAT. HMRC are also introducing Making Tax Digital for Income Tax.

Self-employed individuals and landlords with combined gross annual business and property income above £50,000 will need to follow the rules for MTD for Income Tax for the 2026/27 Tax Year, those with income over £30,000 following in 2027/28 and those with income over £20,000 being mandated in 2027/28. The start date for MTD for partnerships, LLPs or companies has yet to be confirmed.

There are many ways that we can help you with MTD:

- We can assist you in registering for VAT online.
- We can act as your agent and file VAT returns online with you providing us with the figures to be entered.
- We can help you implement online filing through software.
- We can provide you with MTD compliant accounting software with integrated online filing so you can easily calculate and file the figures.

Tax Calendar

The following summarises some of the more significant filing and tax payment dates to be aware of.

Date	Return
Annual Events - Payroll	
19 April	Final RTI Submission due
6 July	Submission of form P11D reporting benefits in kind
19 July	Payment of Class 1A NIC
Annual Events - Limited Companies	
1-2 months before the end of the accounting period	Year-end tax planning
9 months and 1 day after the end of the accounting period	Payment of corporation tax for accounts prepared for the calendar year
12 months after the end of the accounting period	Submission of Company Tax Return
Annual Events - Sole Traders and Partnerships	
1-2 months before the end of the accounting period	Year-end tax planning
31 July	Pay second payment on account for the tax year ending on the preceding 5 April
31 January	Submission of Self Assessment Tax Return for the tax year ending on the preceding 5 April Pay balancing payment for the tax year ending on the preceding 5 April Pay first payment on account for the tax year ending on the following 5 April.
Quarterly Events - Limited Companies	
14 April 14 July 14 October 14 January	Forms CT61 to be submitted reporting tax deducted/received on interest payments
Quarterly Events - VAT	
Quarterly	VAT returns (although these can be monthly or annually)
Monthly Events - Payroll	
19^{th}	Payment of payroll taxes (under certain circumstances may be paid quarterly)

Chapter 3 - Accounting & Bookkeeping

Most operators of a new and growing business have a flair for the environment in which the business operates. They may be a great salesperson, an outstanding mechanic, carpenter, solicitor, or inventor. Unfortunately, most people don't like to keep the books. As an owner of a business, you must remember that your company's books and financial statements represent a score sheet which tells how you are progressing, as well as an early warning system which lets you know when and why the business may be going amiss. Financial statements and the underlying records will provide the basis for many decisions made by outsiders such as banks, landlords, potential investors, and trade creditors, as well as the tax authorities and other governing bodies. The necessity for good, well-organised financial records cannot be over-emphasised. One of the greatest mistakes made by owners of small businesses is not keeping good financial records and making improper or poor business decisions based on inadequate information.

Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. Far too often owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them. An accounting or book-keeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run it (or supervise the bookkeeper). Questions you should ask in developing an accounting and financial reporting system are:

1. Who will be the users of the financial information?
2. What questions do I need answered to manage the business?
3. What questions might HMRC ask? It should be noted that HMRC are increasingly making Business Records Checks of those businesses they reckon could have poor records.

As your business grows, you should work closely with your accountant to ensure that your accounting system is providing you with appropriate information. We recommend that you consider a computerised accounting package from the outset that enables you to comply with MTD obligations. We can advise on the most suitable accounting software for your business.

Chart of Accounts

The basic road map into any accounting system is the chart of accounts. It is this chart that helps establish the information that will be captured by your accounting system, and what information will subsequently be readily retrievable by the system. This tool, like the rest of the accounting systems, needs to be dynamic and should grow as the size and needs of your business changes.

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

1. Will your business need to account for stock? If so, will it be purchased in finished form or will there be production costs?
2. Are fixed assets a significant portion of your business?
3. Will you sell only one product or service, or will there be several income streams for your business?
4. Will you need to track whether customers have paid you?
5. Are you going to sell in only one location, or will you do business in several places?
6. Are the products you sell subject to VAT?

7. Do you need to track costs by department?
8. What type of government controls or regulatory reporting are you subject to?

Each one of these questions can have several answers and will probably generate more questions. Each answer will have an impact on how the chart of accounts is structured. It may seem that developing a chart of accounts is not particularly high on your list of things to do as you start a new business. The amount of time and money a well organised accounting system may save you can be significant as the need to generate information for various purposes increases. An example of a basic chart of accounts follows this section.

Cash or Accrual Accounting

One of the decisions to be made as you start a business is whether to keep your records on a cash or accrual basis of accounting. The cash basis of accounting is only an option for sole traders and partnerships; limited companies must use the accruals basis. The cash basis has the advantage of simplicity and almost everyone understands it. Under the cash basis of accounting, you record sales when you receive the money and account for expenses when you pay the bills. The increase in the money in "the cigar box" at the end of the month is how much you have made. Since 2024/25, the cash basis of accounting is the default for all sole traders and partnerships, regardless of their turnover, although it is possible to opt-out and use the accruals basis.

Unfortunately, as we all know, the business world is not always so easy. Sales are made to customers, and you sometimes must extend credit. Your business will incur liabilities which are due even though you may not have received the invoice or have the cash available to pay them. Most users of financial statements such as bankers and investors are used to accrual-basis statements and expect to see them. Once you become familiar with them, they provide a much better measuring device for your business operations than cash-basis statements.

Whether you use the cash or accrual basis, it is possible to keep books for income tax purposes on a different basis than for financial statements. It may be more advantageous (less tax) for you to do so. We can advise you on the advantages and feasibility of doing this in your particular circumstances.

Accounting Records and Record Keeping

Another question that the owner of a business must answer is "Who will keep the books of the business?" Will you do it yourself, will the receptionist or a secretary double as a part-time bookkeeper, will you have a bookkeeper that comes in periodically, or will the volume of activity be such that a full-time bookkeeper will be required?

Very often the owners of a business decide to keep the books themselves and underestimate the commitment they have made to other phases of the operation and the time required to maintain a good set of financial records and books of account. Consequently, the record keeping is often low priority and must be caught up later. This approach, though rarely planned, can require a substantial expenditure of time and money. While it is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise, this can be achieved by maintaining close control over the cheque-signing function and scrutinising certain records. We can help develop a good programme of record-keeping duties for you, your employees, and any outside bookkeepers you may engage.

Making Tax Digital for Income Tax (MTD for IT)

Those who are self-employed or are running an unincorporated property business are likely to be affected by the new record-keeping and reporting requirements that will be phased in from April 2026.

Once an individual is mandated to comply with the Making Tax Digital for Income Tax (MTD for IT) requirements, they will need to use compatible software to:

- Record and retain details of each individual sale and business expense.
- Submit quarterly summaries of their year-to-date income and expenses to HMRC.
- Make accounting and tax adjustments and claim reliefs or allowances.
- Finalise their end-of-year position and submit a digital tax return.

There are some easements to the above requirements, namely for retailers, those with jointly-held property income and those with turnover below the £90,000 VAT threshold.

For those who are mandated to comply with the MTD for IT requirements, a new 'points-based' penalty regime will apply.

MTD for IT will commence from 6 April 2026. MTD for income tax will initially apply to the self-employed and to those who receive income from property.

Those with turnover from self-employment or property of over £50,000 in the 2024/25 tax year will be mandated to comply with MTD rules from 6 April 2026.

Those with turnover from self-employment or property of over £30,000 in the 2025/26 tax year will be mandated to comply with MTD rules from 6 April 2027.

Those with turnover from self-employment or property of over £20,000 in the 2026/27 tax year will be mandated to comply with MTD rules from 6 April 2028.

A Word about Accounting Software Systems

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

The real value of accounting software becomes apparent once it is running smoothly in your business. Your accountant can then function in the capacity for which he was trained, not as a "number cruncher", but as your business adviser, consultant, and strategist. Both of you can focus not on producing reports for various regulatory agencies but on analysing your business to make it more profitable.

Internal Control

What is internal control? It is the system of checks and balances within a business enterprise that helps to ensure that the company's assets are properly safeguarded, and that the financial information produced by the company is accurate and reliable. When you are operating as a "one-man shop", or at least handling all the company's financial transactions, maintaining good internal accounting control is relatively straightforward. However, when your company grows to the size where you must delegate some of the functions, it becomes more difficult to ensure that all the transactions are being accounted for properly.

No matter the size of your business, you should always be able to answer “YES” to the following questions:

1. When my company provides goods or services to our customers, am I sure that the sale is recorded and either the debt is recorded in accounts receivable, or the cash is collected?
2. When cash is spent by my company, am I sure we received goods or services?

The method used to ensure that these two questions can be answered affirmatively will be widely varied. They are essential stepping-stones to maintaining good control in your business. The solution for you may be as simple as numbering the sales tickets and being sure ALL TICKETS ARE ACCOUNTED FOR or reviewing all invoices and timecards before signing company cheques. These are fundamentals in a well-run business. As the company grows you will need to consider concepts such as segregation of authority or controlled access storerooms. No matter what the size of your enterprise, you should consider controlling your business and safeguarding hard earned assets as a priority from the outset.

Illustrative Chart of Accounts (Sole Trader)

FIXED ASSETS - TANGIBLE

0010	Freehold property cost
0020	Freehold property depreciation
0110	Leasehold property cost
0120	Leasehold property depreciation
0210	Plant and machinery cost
0220	Plant and machinery depreciation
0310	Fixtures/fittings cost
0320	Fixtures/fittings depreciation
0410	Motor vehicles cost
0420	Motor vehicles depreciation

FIXED ASSETS - INTANGIBLE

0700	Investments
0900	Goodwill

CURRENT ASSETS

1000	Stocks and work in progress
1100	Trade debtors
1103	Debtors and prepayments
1200	Bank current account
1230	Petty cash

CURRENT LIABILITIES

2100	Purchase ledger control
2109	Creditors and accruals
2200	VAT control account
2300	PAYE/NI creditor

LONG TERM LIABILITIES

2600	Bank loans
2700	Hire purchase creditors
2800	Lease purchase creditors
2900	Other loans

CAPITAL AND RESERVES

3000	Capital account - balance brought forward
3100	Capital introduced
3200	Profit and loss account
3300	Drawings

SALES

4000	Sales/work done
4009	Discounts allowed
4100	Export sales

OTHER INCOME

4200 Royalties received
4210 Commissions received
4220 Insurance claims
4230 Rental income
4240 Bank interest received

COST OF SALES

5000 Purchases
5900 Opening stock and work in progress
5950 Closing stock and work in progress

DIRECT COSTS

6000 Direct labour
6100 Goods outward costs
6200 Goods inward costs
6300 Packaging
6400 Duty paid
6500 Transport insurance
6600 Sales commissions payable
6700 Royalties payable

OVERHEADS

7000 Motor expenses
7100 Telephone
7200 Wages
7300 Rent
7400 Rates
7500 Heat and light
7600 Postage, stationery and advertising
7700 Repairs and renewals
7800 Insurance
7900 Bank charges and interest
8000 Hire purchase interest
8050 Mortgage interest
8100 Accountancy fees
8200 Legal charges
8300 Use of home as office
8400 Protective clothing
8500 Cleaning
8600 Sundry expenses
8700 Subsistence
8800 Profit on asset sales
8900 Depreciation
9000 Bad debts written off

This provides an illustrative list – but you can generally create as many accounts as you need for your own analysis and information. Most software packages come with pre-configured codes set up, sometimes generic and sometimes for a specific trade or industry.

Chapter 4 - Value Added Tax

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

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

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

Registration

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

A. **Compulsory**

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

a) At the end of any month, the value of his taxable supplies in the period of one year then ending has exceeded the registration limit, which is currently £90,000.

b) At any time, there are reasonable grounds for believing that the value of his taxable supplies in the next 30 days will exceed the £90,000 limit.

c) If, where a business carried on by a taxable person is transferred as a going concern, the taxable supplies for the twelve months prior to the transfer exceed £90,000.

In the most common situation, i.e. (a) above, the person must notify HMRC of the liability within 30 days of the end of the month in which the value of the taxable supplies first exceeded £90,000. If, for example, the value of the taxable supplies first exceeded £90,000 in the twelve months to 31 March, then HMRC must be notified by 30 April and VAT registration would commence on 1 May.

B. **Voluntary**

In certain circumstances, it is possible to register on a voluntary basis for VAT even though the value of taxable supplies may never exceed £90,000. This is normally only beneficial where the majority of supplies are being made to customers who are themselves VAT registered. Note the special rules for businesses supplying services in the Construction Industry.

The other situation in which a voluntary registration might be beneficial is where the supplies are all zero-rated and no VAT is charged on the transaction. All VAT paid by the trader on their expenses can be reclaimed from HMRC.

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

Advantages

- Enables input VAT paid on purchases to be reclaimed;

- A VAT number can give the impression that a business is larger than it actually is which sometimes can increase the possibility of obtaining work.

Disadvantages

- There is a requirement to prepare and submit VAT returns every quarter and, if applicable, pay over the VAT due within one month and seven days of the quarter end. Is the amount of work involved worth it for the input VAT that can be reclaimed?

- HMRC may periodically visit the business (about every five years but depends upon the risk of errors) to ensure that VAT is being properly accounted for. There may be penalties for incorrect returns.

- Where you mainly sell to consumers rather than businesses your prices will be uncompetitive compared to non-VAT registered suppliers.

- The business will be required to comply with the MTD for VAT rules.

Taxable Persons and Supplies

a) Taxable Persons

It should always be remembered that it is a person that is registered for VAT and not a business. If a person has two separate different businesses, both with taxable supplies of £50,000, then that person will be required to be registered for VAT and account for VAT at the appropriate rate on the total supplies of £100,000.

It is possible to mitigate the effect of VAT by having one of the businesses operated by a limited company or by a partnership with a relative, but professional advice needs to be taken since HMRC have the power to treat the two businesses as one if strict criteria are not met as they may argue that a single business has been deliberately fragmented to keep it below the £90,000 threshold.

b) Taxable Supplies

Taxable supplies are all supplies made by a business either to a third party or to the trader himself (goods for own use), which are not exempt supplies. Taxable supplies therefore include zero-rated supplies.

The major categories of exempt supplies are:

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

- Education (but not if provided by a private school)
- Health and welfare

It is important that at the outset of a business, a trader establishes the VAT status of any supplies being made to avoid mistakes, e.g., the services of a physiotherapist are exempt, whilst the services of an acupuncturist are standard rated.

Tax Rates

There are three rates of VAT:

1. 20% - the standard rate of VAT, applying to any sales of standard-rated goods or services
2. 5% - for certain supplies such as fuel and power
3. Zero-rated - the four main areas of zero-rated goods are:

   - Food and agriculture (but excluding pet food and most catering)
   - Printed matter, including books and newspapers
   - Young children's clothing and footwear
   - Passenger transport (but excluding hire cars, taxis, and parking)

Any VAT charged by the business, whether at 20% or 5%, is known as output VAT and the total charged or collected in the VAT quarter is payable to HM Revenue & Customs.

Input VAT

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

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

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

Special VAT Reverse Charge for the Construction Industry

Where the supplies are made within the Construction Industry Scheme (CIS), typically by sub-contractor bricklayers, plumbers and electricians supplying to main contractors, their invoices do not show output VAT. Instead, the VAT is accounted for by the main contractor to whom they are supplying their services. The subcontractor would however charge VAT on any invoices to end users such as domestic householders and would continue to be able to recover input VAT on invoices for materials, motor expenses and other overheads.

Quarterly or Monthly VAT returns

As mentioned earlier, as part of the Making Tax Digital project, most VAT registered businesses need to keep their accounting records in a digital format and regularly update HMRC.

Where the trader is likely to be regularly receiving VAT repayments from HMRC they are able to opt to make monthly VAT returns to improve business cash flow. This will often be beneficial for businesses making zero-rated supplies and sub-contractors in CIS to whom the VAT reverse charge applies.

Penalties

For those filing quarterly VAT returns, return submission and payment are due one month and seven days after the end of the quarter.

Each late VAT return will trigger a point. When a person has received a set number of points (4 for those who file quarterly returns), a £200 late-filing penalty will be issued and a period of enhanced compliance will follow. Late payment of VAT can also trigger penalties and interest charges.

More details can be found on the HMRC website:
https://www.gov.uk/government/collections/vat-penalties-and-interest

There are also penalties for errors in VAT returns.

VAT Checklist

Registration

(a) Should the business be registered?
(b) Is basis of registration correct?
(c) Are details on registration certificate correct?
(d) Do procedures exist for notifying H M Revenue & Customs of relevant changes?
(e) Review position at regular intervals.
(f) Is the Cash Accounting Scheme for VAT available and would it be beneficial?
(g) Is the Annual accounting scheme available and would it be beneficial?
(h) Is the flat rate scheme available and would it be beneficial?
(i) Are any of the special schemes for retailers applicable?

Preparation of VAT Returns

(a) Review sources of information.
(b) Prepare draft return.
(c) Check for accuracy and completeness.
(d) Submit the return and make payment (if outputs exceed inputs)

Input Tax

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

Output Tax

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

As mentioned in the checklist there are various schemes which may be suitable for your business such as the flat rate scheme, annual accounting and cash accounting. We will be pleased to discuss the implications of these schemes with you and help you decide if they may be advantageous in your circumstances.

Money Laundering Regulations

HM Revenue & Customs have responsibility for administering certain aspects of The Money Laundering Regulations 2007, particularly relating to High Value Dealers (HVDs).

HVDs are those traders who may receive 10,000 Euros (approximately £9,000) in a single transaction or a series of linked transactions. The Regulations principally apply if cash or cash equivalent are offered in settlement.

If you believe you may be an HVD you should discuss this with us or visit HMRC's website at https://www.gov.uk/guidance/money-laundering-regulations-high-value-dealer-registration to find out whether you need to register.

Further, if you are starting business in an area or field that is regulated under the Money Laundering Regulations please free to discuss this with us, or seek advice from the body designated to regulate that business area. The penalties for not complying are serious.

Chapter 5 - Payroll Taxes and Pensions

Irrespective of the form of business in which you operate, if you are going to have employees, then you will have to contend with payroll taxes. If you are trading as a limited company, then remember that the directors are also employees. The brief summary that follows will give you some guidance in the rules and regulations of HMRC.

Helpful Publications

HMRC publish guidance on their website relating to how PAYE is operated and the legislation that you have to comply with. Not only do you collect and remit PAYE to HMRC, you also operate the statutory sick pay scheme and maternity pay scheme. It is very important to run the PAYE scheme in accordance with the legislation. Where an employer fails to do so, HMRC will make the employer pay the tax or NIC they failed to deduct. This can be costly if the tax and NIC cannot be recovered from the employee.

Do You Have Employees?

Whether an individual is an employee or not in a particular situation is a question of fact depending on the terms on which he works. The question of whether an individual is employed or self-employed is very important for the business “employing” him or her, as that business has to comply with the reporting requirements. The “employer” should not just accept that the worker says he is “self-employed”.

If you have treated someone as self-employed and subsequently after a routine visit from HMRC it is clear that they were employees, then the tax and NIC which should have been paid will be assessed on the employer. Therefore, it is important to ensure when using the services of self-employed people that they are in fact self-employed. If doubt exists as to the status of an individual, the situation can be clarified with HMRC. HMRC provide an interactive software tool to help employers and workers at:
https://www.gov.uk/employment-status-indicator

The Operation of PAYE and Real Time Information

Most businesses operate a computerised payroll system and we can advise on the software to use if you wish to run the payroll yourself. Alternatively, we can prepare the payroll on your behalf if you provide us with employees’ hours, rates of pay and overtime on a timely basis each week or month.

A system of Real Time Information (RTI) requires businesses to submit information electronically to HMRC every month. You will need RTI-enabled software which is provided by several software companies. Alternatively, where there are 9 or fewer employees you can use HMRC’s Basic PAYE Tools software which can be downloaded from the HMRC website.

The tax and national insurance should be paid to HMRC by the 19th of the month following that in which the salaries were paid (22^{nd} of the month if paying electronically).

Under RTI, the employer tells HMRC about tax, NICs and other deductions when or before the wages and salary payments are made, instead of waiting until the end of the tax year.

Pensions Auto Enrolment

Pensions legislation requires all employers to provide a pension scheme for their employees. This “Auto Enrolment” is now an obligation for all businesses with exception of one-man band companies.

New Businesses are required to auto enrol relevant employees as at the date that the business makes its first payment to the employees. There are exceptions and additional procedures for businesses to follow so please contact us for further information.

For automatic enrolment there are minimum contributions you must pay in order to comply with your duties. These are a percentage of earnings and from 6 April 2019 onwards the employer is required to contribute a minimum of 3% of the employee's earnings with a total minimum contribution of 8%, i.e. 5% from the employee.

Your worker may also wish to pay additional pension contributions, which you will need to make sure you deduct and pay to the scheme on time. More information on ongoing automatic enrolment responsibilities can be found here: www.tpr.gov.uk/ongoing

After you have automatically enrolled your staff members, they may ask to 'opt out' of the pension scheme. You must then stop deductions of contributions and arrange a refund of any contributions they have paid to date.

You must set up a workplace pension scheme before your staging date if you don't already offer one. If you already have a pension scheme, you may be able to use that scheme. We can advise you on your obligations and assist you in complying with the new rules.

Benefits in Kind

In most businesses, the directors, and often the employees, receive non-cash benefits, the most usual being the provision of a car and possibly fuel. Class 1A national insurance contributions (15% in 2026/27) are due on the taxable value of these benefits in kind and are due on the 19 July following the tax year in which the benefits are made available.

In addition, where taxable benefits have been provided to an employee in a tax year, HMRC requires a form P11D (Return of expenses payments and benefits) to be completed for that employee.

The form is also used to report reimbursed expenses, such as employee travel and subsistence, however where these are incurred by employees wholly, exclusively and necessarily in the performance of their duties they do not need to be reported. The form P11D(b) is required to declare the overall amount of Class 1A National Insurance contributions due on all the expenses and benefits you have provided. Beginning in 2027/28, it will become mandatory for employers to include most benefits in kind in their payroll.

Payroll Software

If you plan to operate and process your own employee payroll, there are various software packages available including the free software from HMRC "Basic PAYE Tools" referred to above.

However, operating a payroll system can be complex and time consuming. We offer a bureau facility for processing your payroll and supplying you with reports, payslips etc. Contact us if you would like further details.

Information about expenses and benefits for employers can be seen here:
https://www.gov.uk/employer-reporting-expenses-benefits/overview

You can obtain more details at the HMRC website:
https://www.gov.uk/government/collections/paye-detailed-information

Chapter 6 – Income Tax and Corporation Tax

Ultimately, you will have to deal with income or corporate taxes. The tax legislation is extensive and can be confusing for an individual starting a business. This chapter does not cover all the tax ramifications of a new business, nor does it detail all the expenses you can claim for, nor does it give details of allowances available on the purchase of some capital items. Please feel free to talk to us about any aspect of your tax affairs and we will be happy to give you personalised advice.

Which Accounting Year Should I Choose?

Most businesses prepare their accounts to 31 March or 5 April each year and this is usually a good choice.

Indeed, for income tax purposes, since 2024/25 sole traders and partners are taxed on profits arising during the tax year, regardless of the chosen accounting year end date.

While 31 March or 5 April can simplify your tax circumstances, seasonality or other factors can sometimes make alternative accounting dates desirable.

Please contact us to discuss the full implications of choosing an appropriate accounting date.

Tax Rates

Companies

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

The small companies rate of corporation tax is 19% and applies to profits up to £50,000 a year. The main rate is 25% and applies to profits over £250,000. A marginal rate of 26.5% applies to profits between the two new thresholds.

The £50,000 and £250,000 thresholds are pro-rated for short accounting periods and also divided by the number of limited companies under common control.

HMRC requires a company to calculate its own liability to corporation tax and pay that liability by the normal due date, which is nine months and one day after the end of the accounting period.

The company is required to send its completed Company Tax Return (form CT600), accounts and tax computation to HMRC by the filing date, which is 12 months after the end of its accounting period. Penalties will be charged if it is late. These accounts and returns need to be submitted online to HMRC in iXBRL format. We can deal with this on your company's behalf.

HMRC generally have 12 months from the filing deadline (24 months after the accounting period) to open an enquiry into the company's corporation tax return, otherwise the self-assessed figures are considered final. If additional tax is determined to be payable, interest (and possibly penalties) will be charged on the additional tax due.

Sole Traders / Partners

Sole traders and partners in a partnership are charged income tax at the rate applicable during the relevant tax year (6 April - 5 April). The rates are as follows:

	2025/26	Rate	2026/27	Rate
Personal allowance	£12,570	0%	£12,570	0%
Basic rate	Next £37,700	20%	Next £37,700	20%
Higher rate	Next £74,870	40%	Next £74,870	40%
Additional rate	Thereafter	45%	Thereafter	45%

There is also a £1,000 tax free allowance for small amounts of rental or trading income. Provided the amounts are less than the allowance, no income tax has to be paid on them.

It should be noted that income tax rates and thresholds differ for Scottish taxpayers. Please talk to us to obtain a revised rates table if you need one.

Sole traders or partners in a partnership may also have a liability to Class 4 National Insurance Contributions, depending on the level of profit in each tax year.

Previously Class 2 National Insurance contributions were also mandatory where profits exceeded a set level. However, since 2024/25, payment of Class 2 contributions will not be required.

Historically, Class 2 National Insurance contributions have given the payer entitlements to certain state benefits. For 2026/27, if your trade profits exceed £7,105, you will accrue entitlement to state benefits even though no contributions have been paid. However, if your trade profits fall below £7,105 you will need to pay Class 2 contributions voluntarily (£189.80 for 2026/27) if you need the tax year to qualify for state benefit purposes. 35 qualifying years are required to entitle the individual to a full State Pension.

Class 4 contributions for 2026/27 will be levied at 6% on profits between £12,570 and £50,270. There is a further 2% charge on profits in excess of £50,270.

For the self-employed and those that receive other untaxed income such as rents, income tax and national insurance is normally payable in three instalments - the first two instalments are based on the tax and national insurance paid on the previous year's business tax liability. Half is paid by the 31 January in the year of assessment (e.g., 31 January 2027 for 2026/27), the other half by the 31 July in the year following the year of assessment (e.g., 31 July 2027 for 2026/27). The third instalment will be any balance due or any amount repayable by HMRC if the final liability is lower than the amounts paid on account. This final instalment is payable by the 31 January following the year of assessment (e.g., 31 January 2028 for 2026/27).

It should be noted that, when you start up an un-incorporated business, you may not pay any tax or national insurance on profits for some considerable time. For example, if you start to trade on 1 May 2026 and your first accounts run to 31 March 2027, your first tax and national insurance payment will likely be on 31 January 2028. Because there is not a previous year's business tax liability, you will likely (depending on other income sources) not need to pay instalments on 31 January 2027 or 31 July 2027.

The 31 January 2028 payment will be 100% of the tax and national insurance liability for the period to 31 March 2026. In addition, you will also have to pay 50% of that sum "on account" for the following tax year (2027/28), with a further 50% in July 2028. You are then in the six monthly "cycle", and we can work with you to estimate the tax and national insurance payments so that you can budget and set the money aside.

A key budgeting tool is to ensure that your accounts are prepared as soon as possible after the end of the accounting period. In our example of a 31 March year end, if accounts can be prepared before 31 July it will be possible to calculate the tax for the year to 31 March **and** make sure the forthcoming 31 July instalment is accurate - adjusting downwards if tax due is found to be less. If tax due is more than predicted, the extra won't need to be paid until the following 31 January but there is at least early knowledge of this additional tax falling due.

Under self-assessment your income tax return, which encompasses your trading results, needs to be filed by 31 January following the tax assessment year. This also applies under MTD for Income Tax.

Company shareholders - Taxation of Dividends

An important factor to consider when deciding whether to trade via a limited company or as an unincorporated business is the total amount of tax payable, not just the rate of tax on the profits. The 19% small companies rate of corporation tax makes a limited company appear very attractive. However, the shareholder/director then has to pay tax personally on the profits that they extract from the company, so there is effectively double taxation.

A big cost here is national insurance, payable by both the employer and employee on amounts extracted as a salary or bonus. Many owner-managed companies have tended to extract profits by paying themselves a low salary, with the balance being paid out as a dividend to minimise the national insurance cost.

In 2026/27, individuals will pay 0% income tax on dividend income received up to £500. However, dividend receipts in excess of £500 will be taxed in 2026/27 at:

- 10.75% for basic rate taxpayers
- 35.75% for higher rate taxpayers
- 39.35% for additional rate taxpayers

Example

In 2026/27, Alan and Amanda each take a dividend from their company of £37,700 and a salary equal to their personal allowance of £12,570. Company profits were £118,226 before the salaries.

They will pay tax at 10.75% on £37,200 of that dividend, after deducting the dividend tax allowance of £500. In 2026/27 they will each pay income tax of £3,999.00 on their dividends, totalling £7,998.00 for the couple. The company would also pay corporation tax on the taxable profits of £20,918.

Their company is also technically liable to pay employer's National Insurance on the salaries in excess of £5,000 but, in these circumstances, an employment allowance of £10,500 is available to offset against this and reduce the employer's liability to £nil.

If they had been a partnership with profits at a similar level, they would have paid almost £1,900 less in tax and national insurance between them compared to corporation tax, income tax and NICs.

When deciding whether to trade as a limited or an unincorporated business we can of course advise you on the tax payable under the different business structures.

Tax Credits

Whilst not specifically related to "tax" despite the name, we will mention Tax Credits at this stage. There are two elements - Child Tax Credit and Working Tax Credit, although these are gradually being replaced by a new system of Universal Credits.

Child Tax Credit (CTC) is for families who are responsible for at least one child or qualifying young person. You should claim if you have a child or qualifying young person who usually lives with you. You do not have to be working to claim CTC.

Working Tax Credit (WTC) is for people who are employed or self-employed (either on their own or in a business partnership), who:

- get paid for their work
- expect to go on working for at least 4 weeks

And who are either

- aged 16 or over and responsible for at least one child, and usually working at least 16 hours a week, or
- aged 16 or over and disabled, and usually working at least 16 hours a week, or
- aged 25 or over and usually working at least 30 hours a week, or
- aged 60 or over and work at least 16 hours per week

WTC is made up of several elements which we do not have space to list here.

If you are married or living with a partner, you'll need to make a joint claim for tax credits. You can only make a single claim if you don't have a partner.

When starting up it may be that your income precluded you from claiming tax credits in the past. However, income may drop substantially or a "loss" for both income tax and tax credits purposes may be able to be created by claiming allowances on equipment etc.

Claims can only be backdated for three months from the date of application, so it is advisable to contact the Tax Credits office as soon as possible to make a claim. You may not be immediately eligible based on a provisional calculation which takes into account your income in a prior tax year, but you may become entitled to it at some stage. Telephone the Tax Credits helpline on 0845 300 3900.

Child Benefit

This basic credit is payable by reference to the number of children of the claimant. An income tax charge applies to this benefit where a claimant, their spouse, civil partner or person living with them earns over £60,000 per annum. The charge is 1% of the child benefit received for every £200 of the higher earner's income exceeds £60,000 in the tax year. So, if either you or your partner's income is £56,000, you will be taxed on 30% of the child benefit received. This is called the "High Income Child Benefit Charge". If your income reaches £80,000 then Child Benefit is recovered in full by the High Income Child Benefit Charge. Alternatively, the claimant can disclaim Child Benefit.

Chapter 7 - Cash Planning and Forecasting

Cash is King! The lifeblood of any business is its ability to collect cash and pay bills as well as pay its employees, particularly its owners. Far too often small businesses are profitable, but they do not have enough operating capital to meet their current needs. Consequently, they may be forced to sell out to a stronger competitor, sell a portion of the company to investors at an undesirable price or close the doors and put the company out of business. None of these alternatives are typically what the owners intended when starting the business.

The ability to forecast cash resources and uses is an art and is by no means a well-defined science. None of us have a crystal ball and any cash forecast which is prepared by the management of a company, or their accountant, can be no more than a guess as to when the customers pay and when your business will pay its obligations. Hopefully, the more effort that is put into cash forecasting the better will be the educated guess and the more accurate the resultant picture of the future operations of your business.

Starting the Analysis

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

Some of the questions that should be addressed would include what other factors could I control such as adding new product lines, deleting unprofitable operations, adding a new salesperson, or terminating one that is not producing to quota? In preparing a forecast, you must also take into consideration items such as the seasonality of your business, the relative state of the economy and the period over which you will forecast.

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

Cash Collections

Once you have determined a reasonable level of sales and you are comfortable with the forecast you have made, you must address questions such as: what percentage of my sales are received in cash, and what portion are credit sales for which I will have to carry amounts in debtors? For those that are debtors based, how soon is the cash collected? Do I have to wait for customers to pay me or do third parties such as Visa or MasterCard or a debt factor take the customer's account and convert it to cash for me with an appropriate discount?

If you are relying on customer payments for collection of debtor balances you must determine what portion of the debts will be collected in thirty days, sixty days, ninety days and thereafter, and what portion, if any, may never be collected.

To assume that 100% of your sales will ultimately be converted to cash is probably unrealistic especially considering the current economic environment and the tight cash situations that may face some of your customers.

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

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

Disbursements

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

Additionally, you need to know the credit trade terms your creditors are willing to advance to you. Do you have to pay for stock items on a C.O.D. basis or can you pay for them thirty or forty-five days after receipt? What expenses must be paid to allow you to convert purchased merchandise to saleable stock? If your production requires utilities to run machines or supplies that are required, such as consumable chemicals or packing materials that must be purchased prior to the sale of the stock, you should consider the timing of these payments.

In addition to the cost of manufacturing, you should consider whether your productive capacity would allow you to generate enough stock to support the level of sales that you are predicting. If the volume of sales you forecast is above your ability to produce today, what changes in your operating environment must be made to meet the production levels? Will you need additional employees? If so, how much will they cost? Do you have to acquire additional machinery for your shop operations? What is the cost of the machinery and when will you have to pay for it? Do you have enough space to cope with the additional activity?

Once you have determined the cost of operating your production or service facilities, you need to consider what other expenses you must pay to keep the doors of your business open. You typically will have to pay rent for your office or manufacturing facility. You must consider how much the monthly payment is and when it has to be paid. Ask yourself if there will be other cash requirements such as a deposit on first and last month's rent. If you are opening a new business, you must consider what your cash requirements are to make your facility ready for your specific needs and purposes. Will you have to buy or rent furniture? Will you need to make tenant improvements or pay deposits for utilities and other services?

You also need to consider many of the overhead items and costs to open a new business that will hopefully be one-time expenses. This may be the cost of incorporating your business, a solicitor's fee for drafting partnership and other agreements, the cost to obtain business licences, approval from the taxing authorities, setting up an accounting system, stationery costs, costs of signs or logos etc.

It may seem like the list of costs and expenses to be incurred is endless. It may even discourage you in moving forward with your business endeavour. However, it is imperative to make the list as detailed as possible to ensure that you have sufficient funds to make your operation ready for business prior to running out of cash. The more detailed the list and the more sufficient information you can provide, the less chance there is of unpleasant surprises as you move down the stream to opening your business.

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

Cash flow projections can be very slow, time consuming and tedious to undertake. It is often very tempting to hire someone else to prepare the projections for you. There are a variety of individuals who can help you do this, but the critical factor is that they only help. As the owner and operator of the business, you are the only one truly qualified to develop your cash flow projections. You know what it takes to open and operate your business. Certainly, a trained professional can offer guidance and ask pointed questions to be sure you are considering all of the necessary and sometimes hidden costs of operating a business. However, the more effort you put into developing the cash flow projections, the more accurate they will tend to be. This exercise may also help you to pinpoint areas of potential cash savings that you have not otherwise considered.

Chapter 8 - Obtaining Credit and Financing Your Business

If not independently wealthy and perhaps even if you are, eventually you will probably need to obtain some outside capital for your business. In some instances, you may need to obtain capital for the initial expenses prior to opening your business or, for instance, the funds you require may be for expansion or working capital during the off-season.

Generally, business financing can take two forms: debt or equity. Debt, of course, means borrowing money. The loans may come from family, friends, banks, other financial institutions, or professional investors. Equity relates to selling an ownership interest in your business. Such a sale can take many forms such as the admitting of a partner or, if you are in a company, issuing of additional shares to investors. It is typically a prudent idea to consult with your accountant, as there are many significant legal ramifications to such a step.

How Do I Get the Money?

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

1. How much cash do I need?

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

2. What will you do with the money?

One of the most important questions you will have to answer for a potential investor is how the money will be spent. Will you use it for equipment or to hire additional employees or perhaps for research and development for a new improved product? Again, part of the answer on how you spend the money is how it will benefit the company.

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

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

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

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

Once you have developed concrete answers to these and other pertinent questions, you can begin looking for financing. One of the first steps is to determine whether to raise funds through debt or share capital. There are positive and negative aspects to each type. The cost to your company of each type of funding is different, as is the way in which they are treated for tax purposes. The interest on borrowed money is deductible by a business for tax purposes, which reduces the effective cost to your company. Dividends which you might pay on the same investment in shares would typically not be tax deductible by your company. In selling shares there usually is no firm commitment by your company to pay the money back but your shareholder will want, and generally will have, a legal right to have a voice in the management of your company. When you have made the decision as to the type of financing you think is appropriate to fit your desires and needs, it is probably a good idea to consult with your accountant as to alternative types of debt or equity financing available.

Business Plan

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

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

Financing Alternatives

Whether you determine that debt or equity financing is the best choice for your company, there are a number of alternative types of financing available. Depending upon the nature of your business, the financing may be a combination of debt and equity and may be tailored to fit the specific needs of your company.

In the summary, we will only mention a few of the more conventional methods for a young company to obtain capital, though the possibilities are many. We can discuss these and other alternatives in greater detail.

Debt Financing Sources

1. Banks

The first source of funds, which typically comes to mind when borrowing money, is a bank, which is why they are in business. Banks typically lend to small businesses on a secured basis preferring bricks and mortar as security in preference to equipment, stock or debtors. The more liquid and readily saleable the assets you have to offer as security, the more acceptable they are likely to be a banker. Loans from a bank may take several forms such as:

a) An overdraft limit which is reviewed annually and allows you to borrow up to a predetermined maximum as you need it and pay it back as funds from sales and receivables are collected.

b) A short-term loan that is repayable on specified dates.

c) A term loan for the purchase of a specific asset such as a computer or a machine.

As your relationship with your banker becomes better, and your business becomes established, you may consider a longer (3 to 5 years) loan which will be payable in instalments.

2. Lease Financing

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

3. Trade Credit

A very important source of financing for your company may be from the creditors and suppliers with whom you do business. Many suppliers will initially ask for cash on delivery or, in some instances, they want payment before starting on your order, depending on the nature of your purchase. Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested.

Equity Financing Sources

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

Venture Capital Companies

A venture capital company or fund is typically a company that is in the business of taking risks. A venture capital fund is often backed by a group of investors that may be individuals or companies. The investors are often represented by a management group that evaluates potential investments and manages the existing investment portfolio.

Private Individuals / "Business Angels"

Very often, individuals who are successful in their own right and have accumulated substantial wealth may be looked to for investment in your business venture. Such individuals may believe that the success of your business may enhance theirs as well as help increase their personal wealth. There are generous tax breaks that may be available to such investors if they subscribe for shares in a limited company that qualifies under the Enterprise Investment Scheme (EIS), or the Seed EIS for start-up companies.

Chapter 9 - Insurance

Business insurance, like many types of expenditure, is one of those items that business owners typically do not like to pay. You must remember that sufficient insurance can be as critical to the success of your business as a good product or service. Without proper insurance you could lose all the money, time, and effort you put into your company. The types and amounts of coverage you purchase must be evaluated on a cost – benefit basis like any other commodity that you purchase. Your insurance broker can help you review the amount of coverage your business requires. Usually, you will want to insure against risks that could have significant detrimental impact on your business. This normally would include items such as fire, storm damage, theft, employers, public liability, and products liability. Depending on the nature and size of your business it is often a good idea to self-insure for all or a portion of certain losses. Often raising the deductible (excess) can have a very favourable impact on the policy premium. The administrative cost to the insurance company to process small claims is quite high; consequently, the rates typically go down substantially if they are relieved of this expense by insuring losses in excess of a sizeable deductible amount. An insurance broker can provide you with comparative costs for various types of cover and varying degrees of deductible amounts.

Required Policies

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

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

Commercial Liability Insurance

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

- Public Liability – this will protect you from any liabilities to a third party (other than your employees) for bodily injury or loss/damage to their property that may occur during the normal operation of your business.

- Employers' Liability – if you are a limited company or employ anyone outside your immediate family, you are required by law to purchase employers' liability insurance. This insurance offers you protection for any liability arising from injury or illness sustained by employees whilst they are working for you.

- Products Liability – this will protect you from any liabilities to a third party (other than your employees) for bodily injury or damage to their property that may occur from the products you have sold or supplied.

- Professional Indemnity – this cover is usually purchased by “professionals” such as IT consultants, surveyors, accountants, solicitors etc. This cover will protect your legal liabilities to third parties arising from your or your employees’ professional negligence/wrongful advice.

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

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

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

Business Interruption
This covers loss of income/revenue or additional expenditure incurred following a disruption to the operation of your business. Business interruption usually mirrors your property policy and covers the same perils. However, it is possible to add additional perils to your business interruption cover such as food poisoning or failure of utilities.

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

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

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

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

Identifying a Key Person

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

When is Key Person Protection Needed?

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

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

Partnership Protection

The death of a partner can be extremely damaging to any business. The ability to continue trading and maintain the financial wellbeing of the firm will be vital. In addition, there are other problems which may have to be faced, in the absence of property provision in the Partnership Agreement and insurance cover:

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

Raising the finance to buy a partner's interest may involve the sale of assets or finding someone who can afford to buy into the partnership.

Finding a suitable replacement and raising the money can be difficult and time consuming. If unsuccessful, the partnership may even have to be dissolved. It is clear that partners need to retain continuity, stability and control of the business whatever the eventuality. This can be achieved by making adequate legal and financial provision.

Shareholder Protection

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

Fee Protection Insurance

HMRC's powers have changed, and they now have wider scope than ever before to visit business premises and inspect records. The likelihood of enquiries into a taxpayer's affairs appears to be on the increase. The professional fees in dealing with such enquiries can often be costly so it is advisable to "insure" or subscribe to a tax protection service which will fund these fees in the event of an enquiry or visit. We offer such a scheme and full details are available on request.

Chapter 10 - Selecting Professional Advisers

Starting your own business obviously entails a multitude of decisions which can seem overwhelming without the right players on your team. In order to succeed, you need to equip yourself with every tool at your disposal.

One of the most cost-effective tools you can utilise is the expertise of a specialist. The right accountant and solicitor can eliminate a host of problems and potentially costly errors you might make as you build the financial foundation of your successful business.

As any coach can tell you, having a first-rate attack (in this case, “you”) won’t guarantee a winning team without a first-rate line of defence. The right accountant and solicitor are your best defence. Their expertise can help save you money that in turn can be used to increase profits.

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

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

We wish you success and welcome you to the wonderful world of free enterprise.

Chapter 11 - Computer Accounting Systems for First Time Users

Introduction

This chapter is intended to alert the business user to areas of information technology that require attention and action when installing or updating a system. It is not intended as a complete DIY handbook covering every eventuality.

Computer Hardware

The choice of computer hardware involves primarily: - Hard disk size, Processor speed and Memory (RAM). However, with more and more software becoming "cloud-based" and accessible via the internet (online) this is becoming less of an issue and simple devices e.g. Chromebooks can be used.

In general terms though. Go for as much memory and the highest processor speed within your budget.

Processor

The processor, or central processing unit (CPU) is the part of a computer responsible for responding to and carrying out the sets of instructions necessary to perform operations. The clock speed of a processor is measured in Hertz (Hz), this is a measure of how quickly the computer can execute these instruction sets. Bandwidth, measured in 'bits', relates to the amount of information that can be handled simultaneously by a processor within a given time. Higher clock speed and bandwidth will therefore yield better performance in a machine.

Memory (RAM)

Another important aspect to consider when selecting a system is the amount of Random Access Memory (RAM) that a machine has. RAM is comparable to the short-term memory in the brain, as it is a temporary storage solution. Various pieces of information are stored flexibly whilst a program is running so that it can be accessed quickly; a linear storage space would take longer for data to be retrieved. Having more RAM, therefore, allows programs to run faster, so again 'more is better'.

Hard Drive

The hard drive of a computer is used as a permanent storage solution and is used to store files and application data. The more storage capacity a hard drive has, the more information it can contain. The size of a hard drive is measured in bytes; many new desktop computers now come with at least 1 Terabyte of space which is more than adequate for most businesses! Portable hard drives are also available if required, adding even more storage capability to your system.

All software programs give their 'minimum system requirements' which are the requirements a computer system must meet to run a piece of software. Some programs give details of 'recommended system requirements' which will run the software more effectively if your system can meet them. It is therefore recommended that you check that your systems can meet both the minimum and recommended system requirements of any software applications your business will require.

Accounting Software

Accounting software, like hardware, is now very powerful and comparatively inexpensive. Integrated software includes Sales, Purchase and Nominal Ledgers with Sales/Purchase Order Processing and Stock Control in a single suite of programs. Networked versions for multi-user use are generally more expensive than single-user versions. Most accounting is now done with cloud software.

Choosing an Accounting Package

It is necessary to consider your requirements and what you want to be able to do before buying a package. There are often different levels of functionality in different versions of a program. Consider both the ability to get data into the product and the reporting requirements that you have.

Online "cloud" based accounting packages are fast becoming the norm, and you will not incur any upfront costs, instead paying a monthly fee for its use. These may have integrated payroll too, if you have employees in your business.

If you are already using desktop-based accounting software, it is often possible to migrate to a cloud-based system at no cost.

The Government requires businesses to submit regular information to HMRC as part of their "Making Tax Digital" project. We can advise on the most suitable accounting software for your business.

Modular systems are made up of individual programs for each of the above functions, each of which is more powerful and flexible than the integrated systems. These are put together to form a total system for the larger business, usually on a network of a number of PC's. However, cloud software often allows any number of users without having to install networks.

Websites

Developing and maintaining a website can be as complex and expensive as you care to make it. Careful thought needs to be given before significant time and expense is incurred as to how this technology be best implemented to suit your business. There are many options to consider, and we can give some useful independent advice and thoughts in relation to your strategy in this area.

Social Media

The rise of social media in recent years has meant that today there are a plethora of different social media platforms that can be used to the advantage of business owners. This guide will introduce several social media platforms that are currently popular for business use.

'X' (formerly Twitter)

'X' is a social networking service whereby users send and receive messages of up to 280 characters in length to each other. Users can track the messages of other users by "following" them, and in turn can have their messages "followed"; the more followers a user has, therefore, the more visible their messages are. 'X' is useful as a business tool because it allows you to personally engage with potential and existing customers, monitor what is being said about your company and keep interested parties up to date with your company's newest developments, products and offers.

Facebook

Many people are already familiar with Facebook for personal networking, but opportunities exist to use Facebook for business purposes. The most prominent of these is Facebook Pages, a flexible space within which users can promote their local business, band, or organisation, amongst others. Facebook also offer several paid advertising solutions, whereby campaigns can be targeted at Facebook users according to defined demographics such as age, location, and interests, which can direct people to the company Facebook Page or an external website.

LinkedIn

Billing itself as the world's largest professional network, LinkedIn is designed for users to showcase their professional qualities. User profiles include elements such as professional experience, education and honours and awards, as well as endorsements from other LinkedIn users. LinkedIn is thus a great place to establish yourself as a competent individual within your industry. Moreover, due to the number and diversity of groups on LinkedIn, it can be a great tool for finding and networking with like-minded individuals, as well as discovering potential business partners or additional company personnel.

Instagram

How people consume their content online has changed over the years, no more so with Instagram, a social platform based around images and video. Instagram allows users to quickly post images, videos and even 'stories' (a series of video clips) that can be viewed, shared and commented on by anyone, or preapproved follows to your account. The ability to utilise filters on your content, add hashtags, geohashtags and also live stream means Instagram is an attractive way to connect with current and prospective customers alike. Instagram is an alternative social platform, focussed on visuals to engage with an audience that is after short and appealing content.

Suppliers

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

Training and Support

Training staff on your computer software is essential. We can provide training, on request, tailored to your specific requirements.

Security

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

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

Costs

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

Conclusion

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

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

Installation of Accounting Systems

1. Consult your accountant! Grants may be available for training.

2. Decide on starting date, consider trial period.

3. Set up nominal ledger accounts, Balance Sheet and Profit and Loss Layout.

4. VAT- Accrual or Cash Accounting?

5. Are departments required for sub analyses?

6. Use a dummy company for practice (multi-company systems only).

7. Obtain starting trial balance.

8. Obtain starting Sales and Purchase Ledger balances.

9. Enter Trial Balance by journal entry.

10. Enter Sales/Purchase account code, names, addresses, etc.

11. Enter Sales and Purchase Ledger balances by posting directly to Sales/Purchase control account.

12. Enter live data:
    a. Sales and purchase invoices
    b. Cash received
    c. Cash paid
    d. Petty cash

13. Consider the need to keep manual records for at least three months and Cash Book for full year.

14. Reconcile Bank Statement with Cash Book and Computerised Bank Control Account using Cloud software.

15. Consider direct production of Sales Invoices.

16. Keep a backup disk for each of the five weekdays. Keep a weekending backup off the premises. Many businesses backup using “Cloud” based systems these days for additional security of data.

Apps
The move to cloud-based software has led to significant growth in other ancillary products and services which link into the accounting software. No longer is it necessary to print out supplier invoices, pass them for manual entry into the accounts and file them away on the shelves.

These can now be sent to a software product for automatic data extraction and coding, and the details end up in the accounting software, together with a copy of the invoice which is viewable from within the accounts system.

Similarly, there can be automation in other areas; chores such as debt chasing, bank reconciliations etc. Reporting can also be automated too, with automated "alerts" when something is good – sales exceed £100,000 for the month, or bad – the overdraft limit has been reached.

The benefits will be mainly a business that you manage - instead of a business that manages you!

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