



business starter pack

giving you a helping hand

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Introduction

Many of us aspire to running our own business – and not always for the same reasons. For many, the appeal lies in the freedom of being their own boss and setting the hours they work. For others, it is in the challenge of making it big and obtaining full financial reward for their efforts.

Whichever reason, a long journey lies ahead with a lot of decision making on your part. Time spent now in thinking through your plans will most certainly minimise the risk of failure. Hence the reason behind the production of this pack. We have raised most of the issues that will require decisions and provide information to help you weigh up the best option for you and your new business.

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. You must have a commercially viable idea. You will need to have properly researched the market – is there enough custom given your pricing and cost structure to enable the company to achieve profitability and can the business survive until you get there? Finally, you need to be honest about the type of person you are – to succeed in business you will need to have determination, the tenacity to keep going when times are tough and the self discipline to work hard with no-one but yourself to spur you on.

Please note that this pack 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.

Selecting Professional Advisers

Starting your own business obviously entails a multitude of decisions; 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.

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.



Selecting the Right Legal Entity

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 three basic forms of business organisation. Each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

Business Structure – The Pros & Cons

Whatever structure you choose, the protection of shareholder or partnership agreements should be carefully considered and legal advice sought.



Company	Sole Trader/Partnership	Limited Liability Partnership (LLP)
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 set-up cost.	There are no formation costs, but a written partnership agreement is advised.	Must be registered at Companies House, so higher formation costs than a traditional partnership. A formal members agreement is also advised.
Companies are governed by the Companies Acts. A company must: <ul style="list-style-type: none"> · Keep accounting records · Produce audited accounts (if turnover > £6.5m or if gross assets > £3.26m) · File accounts & an Annual Return with the Registrar of Companies · Keep Statutory Books 	Sole traders and partnerships are not required by law to have annual accounts nor to file accounts for inspection. However, annual accounts are necessary for the submission of tax returns.	The LLP Act requires LLPs to file accounts and an Annual Return at Companies House. An audit is required if turnover > £6.5m or if gross assets > £3.26m.
Typically the owners or shareholders are protected from the liabilities of the business.	Sole traders and partnerships are responsible for the liabilities of the business.	In theory, the liability of members is limited but this has not been tested in the courts.
Companies may have greater borrowing potential. They can use current assets as security by creating a floating charge. However, in the initial stages, some lending institutions can feel more comfortable lending to individuals rather than a company.	Sole traders and partners are unrestricted in the amount and purpose of borrowings but cannot create floating charges. Some lending institutions can feel more comfortable in the initial stages, in lending to individuals, rather than a company.	Tend not to benefit from the greater borrowing potential of companies.
Shares in a company are generally transferable—therefore ownership may change but the business continues.	It is generally difficult to dispose of 'parts' of the business. Greater flexibility in respect of profit shares than a company.	As with traditional partnerships, it is generally difficult to dispose of 'parts' of the business. Greater flexibility in respect of profit shares than a company.
Incorporation does not guarantee reliability or respectability but gives the impression of a soundly based organisation. Personally, there may be prestige attached to directorship.	The unincorporated business does not carry the same prestige.	LLPs are relatively new. It is unlikely that they yet carry the same prestige as companies, but the additional registration requirements may offer reassurance to third parties.
Tax is payable on directors' remuneration paid via PAYE on the 19th of the following month. Higher or additional rate tax is paid by shareholders on dividends. Corporation tax is payable 9 months after the year-end, for small companies.	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, with any final balance due the following January.	Members of an LLP have the same payment dates as a traditional partnership.
In respect of a start-up, losses in a company can only be carried forward to set against future profits.	Losses generated by a sole trader or a partner can be set against other income of the year or carried back to prior years.	Relief for trading losses is restricted to the amount of capital subscribed.
For profits up to £300,000 tax is charged at 20% (2011/12).	Profits are taxed at 40% on taxable income in excess of £35,000 and 50% if income exceeds £150,000 (2011/12).	Profits are taxed at 40% on each member's taxable income in excess of £35,000 and 50% if income exceeds £150,000 (2011/12).
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.	A partner/sole trader will pay Class 2 NI of £2.50 p. w. and Class 4 NI dependent on the level of profits.	A partner will pay Class 2 NI of £2.50 p.w. and Class 4 NI dependent on the level of profits.

Registering with the Tax Authorities

A significant task for the new business owner is assuring that the business is properly complying with the extensive tax and information filing requirements imposed by the various authorities. Problems and penalties could arise if the new business is not registered with the appropriate tax authorities in a timely fashion. While this chapter is not intended to be an all-inclusive list of filing requirements, it summarises some of the more prominent requirements common to most businesses.



HM Revenue & Customs NI Contributions Office

Depending on the level of profit, sole traders and partners have a liability to Class 2 NIC, and these are payable either quarterly or monthly by direct debit. Class 2 contributions are at a weekly level of £2.50 (where annual earnings are £5,315 or more for 2011/12) and the necessary form to collect Class 2 contributions should be completed at the same time as the form CWF1. Leaflet CA02 'National Insurance contributions for self-employed people with small earnings' gives full details and an application form for exemption from liability.

HM Revenue & Customs

It is necessary to notify HM Revenue & Customs of your existence by completing forms CT41G (companies) or CWF1 (sole traders/ partnerships). The form notifies HM Revenue & Customs of your accounting date, your accountant, and also enables a PAYE (Pay As You Earn Scheme) to be set up, which is a requirement if you are to be an employer.

If you fail to register within the first three full months of commencing business a penalty of £100 may be levied.

VAT

You need to consider if it is beneficial to be VAT registered from the outset. If you are registering for VAT, form VAT 1 needs completing, and if you are a partnership, form VAT 2 needs to be completed, in addition to the VAT 1, giving details of all the partners. Alternatively, an online registration process is available on HMRC's website. If turnover exceeds the compulsory registration limit, £73,000 at 1 April 2011, in any period of 12 months or less Customs must be notified within 30 days of the end of the month in which the threshold was exceeded.

Accounting and 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 taxing 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 bookkeeping 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 should be answered for HM Revenue & Customs?

As your business grows, you should work closely with your accountant to ensure that your accounting system is providing you with appropriate information.



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.

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. As a consequence, 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. Your company's accountant can help develop a good programme of record-keeping duties for you, your employees and any outside bookkeepers or accountants you may engage.

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 of 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 the debt is recorded in accounts receivable or the cash is collected?
2. When cash is expended 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 in your particular instance 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.

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.

Choosing Your Computer and Accounting System

The choice of computer and accounting systems is very specific to the individual's needs and requirements. Specialist advice should be sought in respect of:

- hardware
- printers
- software
- suppliers

Whether your business needs a network of computers, the planning and implementation of computer and accounting systems must be carefully considered. Some questions you will need to ask:

- Q What type of management information will I require?
- Q Will the system be able to support and record my business activity and transactions?
- Q Will my staff be adequately trained with back-up and support available?
- Q What level of security do I need?
- Q What can I afford to spend?



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 the VAT registered business and is normally payable to HM Revenue & Customs quarterly.

Registration

There are three different types of registration – intending, voluntary and compulsory:

A) Intending

A person who has not made any supplies but intends to do so can apply for VAT registration upon commencement of the activity. The person must complete a VAT 1 and provide HM Revenue & Customs with acceptable documentation to support the application that they are in business and will be making taxable supplies in the future. This type of VAT registration can be time consuming but allows VAT recovery at start up.



B) Voluntary

It is possible to register on a voluntary basis for VAT even though the value of taxable supplies may never exceed £73,000. This is normally only beneficial where the majority of supplies are being made to customers who are themselves VAT registered or where supplies are zero rated and no VAT is charged on the transaction. All VAT suffered by the trader on expenses can be reclaimed from HM Revenue & Customs.

C) Compulsory

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

- i) 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 £73,000 from 1 April 2011.
- ii) At any time there are reasonable grounds for believing that the value of his taxable supplies in the next 30 days will exceed the £73,000 limit.

In the most common situation, i. e. (i) above, the person must notify HM Revenue & Customs of the liability within 30 days of the end of the month in which the value of the taxable supplies in the preceding 12 months or less exceeded £73,000. If only VAT exempt supplies are made e.g. sales of refurbished dwellings VAT registration cannot be applied for and VAT on expenditure can not be reclaimed.

Taxable Persons and Supplies

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 businesses, then that person will be required to be registered for VAT and account for VAT at the appropriate rate if the total supplies exceed £73,000.

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. 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.

High Value Dealers (HVDs)

Under money laundering regulations, specific regulations apply to HVDs. HVDs are those traders who may receive 15,000 euros (approximately £13,000) in a payment or a series of transactions. The regulations principally apply if cash or cash equivalents are offered in settlement.



VAT Rates

There are three rates of VAT:

- standard = 20%
- reduced = 5% – for certain supplies of fuel and power, sanitary goods and certain construction services
- zero

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, reduced or zero-rated supplies.

To reclaim VAT you have been charged as input VAT, 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.

VAT Payable

The amount of VAT actually payable to HM Revenue & Customs is the output tax charged to customers, less the VAT charged by your suppliers. The tax is due to be paid one month after the end of the VAT period which is usually a three month period. If input tax exceeds output tax, a refund is due from HM Revenue & Customs. If regular refunds are expected then monthly VAT returns can be applied for.

Penalties

There are two important penalties which every business should be aware of:

- a) Late registration penalty for not registering for VAT at the correct time.
- b) Default surcharge for traders that are persistently late in either submitting VAT returns and/or making payment of the liability due.

Online filing and payment

For return periods commencing on or after 1 April 2010, it is compulsory for businesses with turnover (exclusive of VAT) exceeding £100,000 to file returns online. Related payments must also be made electronically.

This rule will be extended to all registered businesses from 1 April 2012.

Payroll Taxes & Employing Staff

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. The brief summary that follows will give you some guidance in the rules and regulations of HM Revenue & Customs.



Do you have Employees?

Whether an individual is an employee or not is a question of fact, depending on the terms on which he/she 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.

In certain areas, HM Revenue & Customs has placed emphasis on reclassifying individuals claiming to be self employed. Further information is available on the HMRC website but this is a complex area and we recommend that professional advice is sought.

The Operation of a PAYE Scheme

Upon registering, you will receive a letter containing your employer PAYE reference and links to the HMRC website where you can download all the forms and information you will need to operate PAYE, NIC, statutory sick pay, statutory maternity and paternity pay, and statutory adoption pay.

You will need to familiarise yourself with the following forms:

P11	Deduction working sheet
P46	Notification to HM Revenue & Customs where no code has been notified to the employer and application for coding
P46(Car)	Notification of a car provided for the private use of an employee or a director
P45	Details of employee leaving
P14/P60	End of year return and employer's certificate
P35	Employer's annual statement
P38A	Employer's supplementary return
P11D	Expenses and benefits
P9D	Expenses payments and income from which tax cannot be deducted

In order to calculate the amount of tax and national insurance due by an employee, HM Revenue & Customs will supply you with sets of tables. By reference to the 'tax free' tables and an employee's tax code you will be able to calculate the amount of salary that is not subject to tax. The difference between this figure and the gross amount is the employee's taxable pay. This can then be calculated by reference to another set of tables. The employer's and employee's national insurance is calculated by reference to the gross pay with a third set of tables. Special rules exist for the calculation of national insurance for directors. The HM Revenue & Customs website also includes calculators for determining PAYE liabilities.

The tax and national insurance should be paid to HM Revenue & Customs by the 19th of the month following that in which the salaries were paid.

The Construction Industry Scheme

If you are a contractor or subcontractor working in the construction industry, you will need to consider the requirements of the CIS scheme which came into force from 6th April 2007. Under the scheme, all payments made by contractors to subcontractors must take into account the tax status of the subcontractor and there is likely to be a requirement to deduct tax from some payments before they are made and pay this tax over to HM Revenue & Customs. Subcontractors will need to register with HMRC and can apply to be paid without deduction of tax if they meet certain qualifying criteria.

Taxable Benefits

In most businesses, the directors and often the employees, have benefits that are not immediately taxed through the PAYE system, the most usual being the provision of a car and possibly fuel. Class 1A national insurance contributions are due on the taxable value of these benefits in kind and are due on the 19 July following the fiscal year in which the benefits are made available. In addition, HM Revenue & Customs requires on an annual basis, a form P11D (Return of expenses payments and benefits) for all directors irrespective of income and all employees receiving remuneration including the benefit in excess of £8,500. For those employees earning less than £8,500 but who receive expense payments and benefits, a form P9D is required.



A form P46 (car) needs to be completed quarterly on 5 July, 5 October, 5 January and 5 April if any employees have been provided with or have changed their company car. Further details are given on the taxation of company cars at www.hmrc.gov.uk/cars. HM Revenue & Customs will still require form P11D to be submitted annually in addition to the P46 (car) forms.

Employing your Staff

You will need to set up employment contracts for your employees, making sure that they include all the essential elements. It is worth researching this and you should take legal advice from an appropriately qualified employment law expert. The main purpose of the contract is to define the working practices and obligations to the individual you are employing and their obligations and responsibilities to you. This should ensure that they are clear of their terms of employment.

Here are some key things you will need to do with regard to paperwork:

- Clarify your own status and those who work for you e. g. self-employed, worker, employee, director or contractor
- Set your self up as an employer with HM Revenue & Customs
- Comply with data protection legislation and follow set practices for information handling
- Know how to make a job offer and carry out pre-employment checks.

You should also consider whether you or your employee qualifies for:

- Working Tax Credit
- Child Tax Credit.

Health & Safety

The importance of health and safety within your working environment is second to none, and every business has legal responsibilities to ensure the health and safety of their employees. Good practices in this regard will pay for themselves, as well as improving your reputation with staff, customers and the local community. Again, appropriate legal advice is advisable.

Income Tax & Corporation Tax

The taxation legislation is extensive and can be confusing for an individual starting a business. We have provided below, details of the rates of tax and the reporting requirements. It is however, important to take specific tax advice for your circumstances to ensure you are not suffering more tax than you are legally required to pay, and to ensure you are claiming the appropriate and correct rate of allowances to which you may be entitled, for example:

- Capital allowances
- Research and development reliefs
- Direct investment incentives.

Tax Returns

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.

Financial year to	31 March 2012	
First	£300,000	20%
Next	£1,200,000	27.5%
Over	£1,500,000	26%

There are special rules to calculate the tax rates applicable for profits falling between the small companies and normal rates so as to ensure that the tax charge rises progressively.

Under Corporation Tax Self Assessment, a company is required to make an estimate of its own liability to corporation tax and pay that liability by the normal due date, nine months after the end of the accounting period, without an assessment being raised.

The company is required to send its completed tax return (form CT600), accounts and tax computation to the Inspector by the filing date, which is 12 months after the end of its accounting period. Penalties will be charged if it is late.

Once the company agrees its liability with the Inspector, there will be a settlement of any balance due or overpaid. Interest will be charged or paid from the normal due date on the balance.

Larger companies pay tax in quarterly instalments.

Sole Traders/Partnerships

Sole traders and partnerships (and income of members of a Limited Liability Partnership) are charged income tax at the rate applicable during the fiscal years (6 April-5 April). The rates are as follows:

	2011/12	Rate
Basic – below	£35,000	20%
Higher – over	£35,000	40%
Top – over	£150,000	50%

There may also be a liability to Class 2 and Class 4 National Insurance Contributions, depending on the level of profit in each fiscal year. Class 2 contributions are at a weekly stamp rate of £2.50 (2011/12). Class 4 NI is payable by the self-employed on profits.

Class 4 contributions are levied at 9% on profits between £7,225 and £42,475 (max) for 2011/12. There is a further 2% charge on profits in excess of the upper limit of £42,475.

For the self-employed and those that pay tax on other income such as rents, tax is normally payable in three instalments – the first two instalments are based on the tax paid on the previous years business tax liability. Therefore half is paid by 31 January in the year of assessment, the other half by 31 July in the year following the year of assessment. The third instalment will be any balance due (payable the following 31 January) or any amount repayable by HM Revenue & Customs if your final liability is lower than the amounts paid on account.

Under self-assessment your income tax return, which encompasses your trading results, needs to be filed by 31 January following the tax assessment year if filed electronically. This date is brought forward to the end of September if you wish HM Revenue & Customs to calculate your tax liability.

The 31 January deadline is brought forward to 31 October for paper returns.



Forecasting & Cash Planning

It has been said, "You would not undertake a long journey without a map or timetable." This is also how you should commence the long journey that is your new business.

There are many factors that affect the ability of a new business to project their trading not just in the first fledgling years, but for many years after. Examples are:

Certainty of Sales

- Are contracts in place?
- Have orders been placed?
- Is it a retail operation?

Cash Collection

- Does the contract stipulate payment terms?
- Is it a cash business?
- Is factoring in place?

Expenditure Patterns

- Is there a production process?
- Are there regular salary costs?
- What are the payment terms?
- Is there a rent deposit and are rent/rates/service charges paid monthly or quarterly?

This list is by no means exhaustive but to ascertain the ultimate viability of your business and monitor its progress, these questions and many more, have to be brought into the equation that manifests as your expected profit and cash flow for the period ahead.



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 an outside consultant 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.

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. You, as the owner and operator of the business, 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.

Obtaining Credit and Financing for Your Business

It may be that once you have completed your forecasted cash flow, you identify a need for some additional finance. 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.



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.

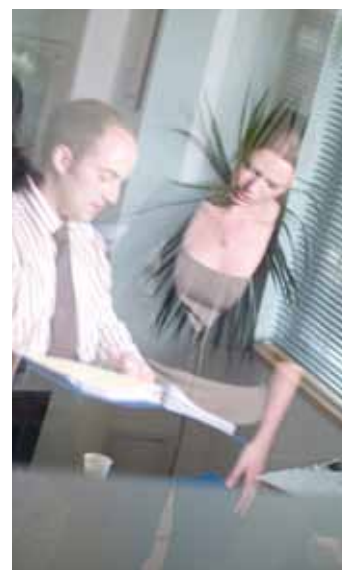
In the summary we will only mention a few of the more conventional methods for a young company to obtain capital, though the possibilities are many. All these and other alternatives should be discussed in greater detail, in advance of the funding requirement.

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 using 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 to a banker. Finance 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** may be used for the purchase of a specific asset such as a computer or a machine, or for taking the business to another level. Another example of this type of funding is a commercial mortgage.



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

2. Lease and Asset Based Financing

In today's business environment it is quite common to acquire equipment through lease agreements. Asset financing companies may be able to provide additional cash flow by providing finance against both new and second-hand assets.

3. Factoring and Invoice Discounting

This form of finance ensures that the turnover you achieve is more quickly available as cash to your business. Working capital tied up in your sales ledger (i. e. non-contractual debt) is therefore released that much quicker. The factor and invoice discounter pays your business an advance on the turnover before it has actually been paid by your customer.

Factoring and invoice discounting can be used in conjunction with, or as an alternative to bank overdraft or loan finance.

4. Trade Credit

A very important source of financing for your company may be from the creditors and suppliers with whom you do business. 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. Establishing good relationships with trade creditors is essential because it allows you to use the goods and services in your operations and sell your product to your customers, in some instance before you pay for them.

5. 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.

The price of venture capital financing is usually very high when compared to borrowing money from a bank, but it must be remembered that venture capitalists are dealing with much higher risk situations than commercial banks will finance. This cost of venture capital is measured in terms of the portion of your company you must sell to obtain the level of financing you require.

6. Private Individuals

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. These individuals, like a venture capital company, very often want to participate in the management activities of your firm and help guide your progress through representation on the Board of Directors. The business acumen and contacts of these individuals can often be a valuable asset of your business. An individual investor can often react to opportunity much quicker than a venture capital firm and typically has only his own interests to serve as opposed to a financial backer or group of limited partners.

Individual investors can be more flexible in the type of investment structure they can deal with and often have personal, financial and tax motivations to consider.

7. Yourself & Your Staff

A cheaper and possibly more effective form of equity finance, can be either further introduction of capital by yourself (perhaps by a loan rather than future share purchase) or your employees. Passing shares to your employees, perhaps via a share option scheme, can have the added advantage of retaining and motivating existing key staff and or recruiting prospective employees.



Insurance

Business insurance, like many types of expenditures 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 of 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 agent can help you review the amount of coverage you may wish to purchase for various purposes. Usually, you will want to insure against risks that could have significant detrimental impact on your business. This normally would include such items as fire, storm damage, theft, general and product 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. Self-insurance can be accomplished by not buying coverage for incidental risks or increasing the deductions on policies that you do buy. Often, raising the deductible can have a very favourable impact on policy premiums. 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 for losses in excess of a sizeable deductible amount.

An insurance broker can provide you with comparative costs for various types of coverage with varying degrees of deductible amounts. Appropriate specialist advice should be taken.



Pensions

Despite recent attempts of Pension Simplification, the rules remain very complex and this means appropriate specialist advice should be taken from an Independent Financial Adviser. Your accountant should be able to advise you on the tax implications of different options.

From April 2012, gross pension contributions (employer and personal) are limited to £50,000 pa. Up to that limit, basic and higher rates of tax relief are available. There are complex rules around unused annual allowances.

Tax Calendar

The following summarises some of the more significant filing dates for business.

Annual Events

Date	Return
19 May	Submission of forms P35 and P14's
31 May	Issue P60's to employees
6 July	Submission of form P11D
19 July	Payment of Class 1A NIC
	Payment of corporation tax (9 months after the end of the accounting period)
	Submission of corporation tax return (12 months after the end of the accounting period)

Monthly Events

Date	Return
Monthly on 19th	Payment of payroll taxes (under certain circumstances – quarterly)

Quarterly Events

Date	Return
14 April	Forms CT61 to be submitted – tax deducted/received on interest payments
14 July	
14 October	
14 January	
Quarterly	VAT returns (although these can be monthly or annual)

In respect of Partnerships and Sole traders, the following annual events apply:

Date	Return
31 January	Balancing payment due for prior year's Income Tax and Class 4 NIC and first payment on account for current year's Income Tax and Class 4 NIC
31 July	Second payment on account for Income Tax and Class 4 NIC

For all individuals required to submit a Self Assessment Tax Return, a deadline of 31 January applies for returns filed electronically. This deadline is brought forward to 31 October for the filing of paper returns.



Useful Names, Addresses and Telephone Numbers

Name	Website	Telephone No.
HM REVENUE & CUSTOMS	www.hmrc.gov.uk/index	
Self Assessment Helpline		0845 9000 444
New Employer's Helpline		0845 607 0143
Subcontractors Helpline		0845 366 7899
Helpline for the Newly Self-Employed		08459 15 45 15
Tax Credits		0845 300 3900
NATIONAL INSURANCE	www.hmrc.gov.uk/ni/index.htm	
National Insurance Contributions Office		0845 302 1479
MISCELLANEOUS		
Companies House	www.companieshouse.gov.uk	0303 1234 500
British Franchise Association	www.thebfa.org	01865 379 892

Government websites	
HM Revenue & Customs	www.hmrc.gov.uk
Central Office of Information	www.coi.gov.uk
Business Link*	www.businesslink.gov.uk

*Business link will cease in November 2011 but remains valid until then.

Conclusion

You now have a handy reference guide to starting a business. With it you should be able to successfully handle many of the problems encountered in starting and running a business. Always remember to seek professional advice in areas that you are not sure. The benefit will far outweigh the cost. Good luck!

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