



Starting in Business

2011/12 Edition

Get your business up and running with Banks & Co



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The First Steps

Welcome

While running a business can be challenging and frustrating, it can also be highly rewarding and fun.

However, nobody said it was easy. That's why the team at Banks & Co is pleased to provide this guide to starting in business, which aims to take you through some important issues you need to think about.

If you need any more information or advice, please don't hesitate to contact our office or visit our website www.banksco.co.uk

After all, we've been helping people just like you achieve success for more than 40 years.

Business Foundations

Before we proceed with how to run your business, it is vital to check you have the right foundations in place.

You need to decide on the right trading structure. Typically this can be either a sole partnership, partnership or limited company. If you have not already decided, then please speak to us. This guide covers matters affecting limited companies, but most of the issues are relevant whatever trading structure is adopted.

The company must be registered with Companies House, and you need to provide details of the registered office (its legal address) and the company directors. Now is the time to check that these details are correct.

While small companies no longer need to appoint a company secretary, if you have chosen one, their details will also need to be registered with Companies House.

This is also a good time to ensure that the shares in your company have been allocated to the relevant shareholders according to your wishes.



Finances

Overview

Maintaining a healthy cash flow is the lifeblood of any business.

In this section, we will examine how to invoice your customers for payment and the taxes you will need to pay.

We also consider the benefits of employing an accountant to look after your financial affairs, before concluding with a look at paying dividends to your shareholders and the expenses you can claim.

Invoices

Once you have your bank account, you will want to receive payments to deposit into it. However, before your customers can pay you, you will need to issue them with an invoice.

Your invoice needs to be dated and contain your company's name, address and registration number, as well as the VAT and invoice number and an itemised breakdown of the charges.

If you choose to include expenses in your invoice, remember to add VAT, even if the expense itself does not have any VAT.

Taxes – Overview

Unfortunately, as well as payments into your bank account, you will also need to pay taxes out.

It is important to pay the correct amount of tax on time to avoid having to pay interest and penalties. To help you with this, we have included a timetable of the various dates you will need to remember at the end of this guide.

We will now look in more detail at the tax you will be liable to pay.



PAYE/NIC

If you pay a salary, you will need to set up a Pay As You Earn (PAYE) scheme with HM Revenue & Customs (HMRC).

You will then need to deduct income tax and National Insurance Contributions (NICs) from the salaries paid, and send the deducted amount to HMRC by the 19th of each month, or the 22nd if you choose to pay electronically.

After the end of the tax year you must send HMRC an Employer Annual return and report the expenses or benefits you've provided, making a one-off payment of NICs on the value of some of them.

VAT

Value Added Tax (VAT) is charged on most goods and services provided by VAT-registered businesses in the UK. It is also charged on goods and some services that are imported from other countries.

If your turnover of VAT taxable goods and services supplied within the UK for the previous 12 months is more than the current registration threshold of £73,000, or you expect it to go over that figure in the next 30 days alone, you must register for VAT. Also, some businesses may be better off operating within the flat rate VAT scheme, as long as their annual VAT taxable turnover is less than £150,000.

You might also be better off choosing to account for VAT on a cash as opposed to an invoice basis.

You will need to complete a VAT return and make any payments at the end of each VAT period – usually every three months.

Corporation Tax

Corporation tax (CT) is paid by limited companies on their profits. Once you have completed the 'Corporation Tax – New Company Details' form sent to your registered office, you will be registered to pay CT.

For profits up to £300,000, CT is paid (2011-12) at the small profits rate of 20 percent, and for profits over £1.5 million a main rate of 26 percent is applied. Companies making between £300,001 and £1.5 million receive marginal rate relief, which eases the transition between the lower and higher rates.

You will need to complete a CT return every year with your annual accounts and make any payments nine months and one day after the end of your company's accounting period.



Tax Returns

Each company director will need to complete a personal tax return each year, detailing all of their income and any allowable deductions.

For tax returns issued by 31st October, payment must be made by the following 31st January. Returns issued after 31st October must be completed and returned to HMRC within three months. As a rule, you then have 30 days from the date of the request to make that payment.

If you have not received your tax return, you should contact HMRC to request one.

IR35

IR35 legislation was introduced in April 2000 to increase the income tax and NICs paid by people who set up their own company instead of working as employees.

The legislation applies when services are supplied to a client through a third party, and the arrangement is such that, without the third party, the individual would be an employee of the client.

For example, when your client contracts with your company instead of you directly, the company can be seen as a third party, and you need to ask that, if your company didn't exist, would your relationship with the client be seen to be one of direct employment or would you be considered self-employed? In the first case, IR35 would apply.

As there is no statutory definition of employment, please contact Banks & Co if you need to clarify your position.

Accountant

Due to the complexity of business taxation, it would be wise for anyone starting out in business to hire an accountant. Finding a reliable accountant will leave you with more time to build your business, instead of worrying about all the paperwork.

When choosing an accountant you will need to consider:

- **qualifications:** your accountant should be fully qualified – so look for ACA/FCA or ACCA/FCCA after their name
- **relevant expertise:** ask them for proof of their ability and experience in managing the financial affairs of businesses of the same size and in the same sector as yours
- **communication:** choose an accountant you connect with and will feel comfortable talking to about your finances
- **fees:** accountants' fees can vary dramatically and you also need to consider whether you will be paying a fixed monthly fee or by the hour
- **services:** find out what services the accountant offers and whether your relationship will be a year-round one



Why Banks & Co?

At Banks & Co, we combine proactive, efficient, cost-effective services with the specialist skills that you won't find at every accountancy practice, all delivered with a personal touch.

In addition to dealing with all the administration and costs of forming a limited company, we can also assist with:

- registration with HMRC for tax and VAT purposes
- setting up a PAYE scheme for payroll purposes
- setting up the company's statutory books
- shareholders' agreements
- directors' service agreements
- pension planning
- value-added services including:
 - outsourced bookkeeping and payroll
 - succession planning
 - estate and inheritance tax planning
 - proactive tax planning and profit improvement
 - investigation of potential targets for acquisition
 - salary and dividend optimisation

Dividends

Dividends are payments made to shareholders from the company's profits. If your company has not made a profit, it cannot pay a dividend for that period.

As the company has already, or is about to, pay tax on the money, tax credits are paid to offset any income tax due on the dividend. The tax credit represents 10 percent of the final dividend income.

As the basic rate of income tax on dividends is also 10 percent, the tax credit cancels out the income tax due for these taxpayers. If your taxable income is above the £35,000 basic rate tax limit/threshold, the income tax rate increases to 32.5 percent, making you liable for an extra charge.

From 2010-11, there has been an additional tax band for incomes over £150,000. In these cases, the rate of income tax on dividends will be 42.5 percent. These dividend tax rates apply to the 2011-2012 financial year.



Expenses

Expenses are expenditure that you need to incur to run your business. Any expenses claimed must be wholly and exclusively for the business. Some of the expenses you may claim for your business include:

- **director's salary:** a salary paid to the fee earner for the company counts as an allowable expense, together with the NICs
- **salaries for company secretary/partner:** you can pay the amount for secretarial support, but this will generally not amount to very much
- **business travel:** this covers both journeys made during the performance of your duties and to and from a temporary place of work. Both mileage and public transport are eligible
- **accommodation while away on business:** this covers the full cost of staying in a hotel or guest house, as well as flats if the rent does not exceed the cost of reasonable hotel accommodation
- **subsistence while away on business:** you can claim for breakfast and an evening meal, as well as a small allowance of £5 each night to cover items such as laundry and newspapers
- **mobile costs:** one mobile phone, the line rental and the cost of private calls paid by the employer are exempt from any tax charge
- **internet connection:** the cost of internet access at your home can be claimed as long as there is no separate billing of work and private connections, and private usage is limited
- **business computer equipment and software:** if you require a computer or laptop to carry out your duties, you can claim for the cost of one. Under the VAT flat rate scheme, you can only reclaim any VAT if the VAT-inclusive price is £2,000 or more
- **home office costs:** it is easiest to claim the flat annual allowance of £156 if you use part of your house as an office. No receipts are required
- **employer pension contributions:** these should be accepted, but only as part of an overall package split between salary and pension contributions
- **training costs:** these can be claimed for upgrading or enhancing your skills, but training for new skills should be claimed as a capital allowance. The travel and hotel costs associated with attending are also allowed
- **medical insurance:** this will be taxed as a benefit in kind, so you need to pay Class 1A NICs if provided to employees earning at least £8,500 a year or more or to company directors (regardless of earnings)
- **Christmas party/annual event:** an annual event, such as a Christmas party, is an allowable expense as long as the total cost is not more than £150 per person
- **miscellaneous items:** other costs that can be paid by your company include:
 - accountancy fees
 - postage and stationery
 - technical books and publications
 - subscriptions to approved professional bodies
 - bank charges



Employment

Overview

There are a number of issues to consider as an employer – even if you are the only employee!

In this section, we take a look at how to decide on the level of salary to pay yourself, and the insurances you need to consider to protect your business.

However, it is important to remember that, if things go wrong, insurance will probably only cover part of the costs. Hidden costs in terms of lost productivity and possible fines mean you should also implement good health and safety procedures to avoid accidents occurring.

Salary

When deciding what level of salary to pay yourself as a director, there are two limits that you need to consider. The first is your NIC free-allowance of £7,475 (which also falls within the tax-free allowance) and the second is the national minimum wage (NMW), which is currently £5.93 per hour (£6.08 from 1st October 2011).

Based on a 37.5 hour week, NMW at £5.93 per hour would provide an annual salary of £11,563.50, which is £4,088.50 more than the annual NIC-free allowance. However, this would also result in extra tax liability, which is not very welcome!

As HM Revenue & Customs would not enforce NMW for directors, there seems to be a case for a salary of just £7,475.

Insurance

There are three types of insurance that you need to consider to protect your business:

- **employers' Liability Insurance:** this covers you against claims made by employees for injuries or illnesses they've suffered when working for you. You must ensure your certificate is displayed or available electronically. This cover is not legally required if you are the only employee and own 50 percent or more of the shares
- **public Liability Insurance:** this covers the damages and legal costs resulting from injury, death or damage to property caused to members of the public, such as visitors, by any of your actions
- **professional Indemnity Insurance:** this protects your business against claims made by dissatisfied customers if you have made a mistake or been negligent in some of the services you provide

There are other insurances you should also consider, including directors' insurance, motor insurance, equipment insurance, contents insurance and cover for legal expenses. If you use your own vehicle for the business, make sure your insurer is aware of this.



Reference Material

Overview

We conclude this guide with a timetable of the various dates you should be aware of and the forms you might need to complete during your business's life cycle.

Timetable

January

19th January: payment of PAYE/NIC deductions for the quarter ending 5th January

31st January: VAT returns and payment for quarter ending 31st December

April

19th April: payment of PAYE/NIC deductions for the quarter ending 5th April

30th April: VAT returns and payment for quarter ending 31st March

May

19th May: P35 and P14s to reach HMRC after the end of each tax year

July

6th July: P11d and P11d(b) to reach HMRC after the end of each tax year

19th July: payment of PAYE/NIC deductions for the quarter ending 5th July

19th July: payment of Class IA NICs on certain benefits in kind, such as company cars

31st July: VAT returns and payment for quarter ending 30th June

October

19th October: payment of PAYE/NIC deductions for the quarter ending 5th October

31st October: VAT returns and payment for quarter ending 30th September

Company specific

Within 9 months of year end: abbreviated annual accounts to be filed at Companies House and payment of corporation tax

Within 12 months of year end: full annual accounts and corporation tax return to be sent to HMRC

Anniversary of incorporation: annual return to be prepared, and is due 28 days later



Relevant Forms

Companies House

AA01	Change your year end date
AD01	Change your registered office
AP01	Appoint a new director
AP02	Appoint a new corporate director
AP03	Appoint a new secretary
AP04	Appoint a new corporate secretary
TM01	Remove a director
TM02	Remove a secretary
CH01	Change the details of a serving director
CH02	Change the details of a serving corporate director
CH03	Change the details of a serving secretary
CH04	Change the details of a serving corporate secretary
DS01	Strike a company off the register
SH01	Issue additional shares in your company

HMRC

64-8	Authorise HMRC to provide company details to your accountant
CT41G	New Company Enquiry form shortly after the company has been formed
P11d	Annual statement of benefits and expenses
P11d(b)	Annual company declaration that P11ds have been submitted
CT600	Annual Corporation Tax return
P14	Annual statement for each employee
P35	Annual summary of all P14s
P45	Leaving statement of payments and tax for an employee
P46	Notice to be completed if you do not have a P45
P60	Annual statement for each employee from the employer
VAT1	VAT Registration application
VAT7	VAT Deregistration
VAT100	Quarterly VAT return
VAT600	VAT Flat Rate application



Notes

A series of horizontal dotted lines for taking notes.

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