

MILSTED
LANGDON

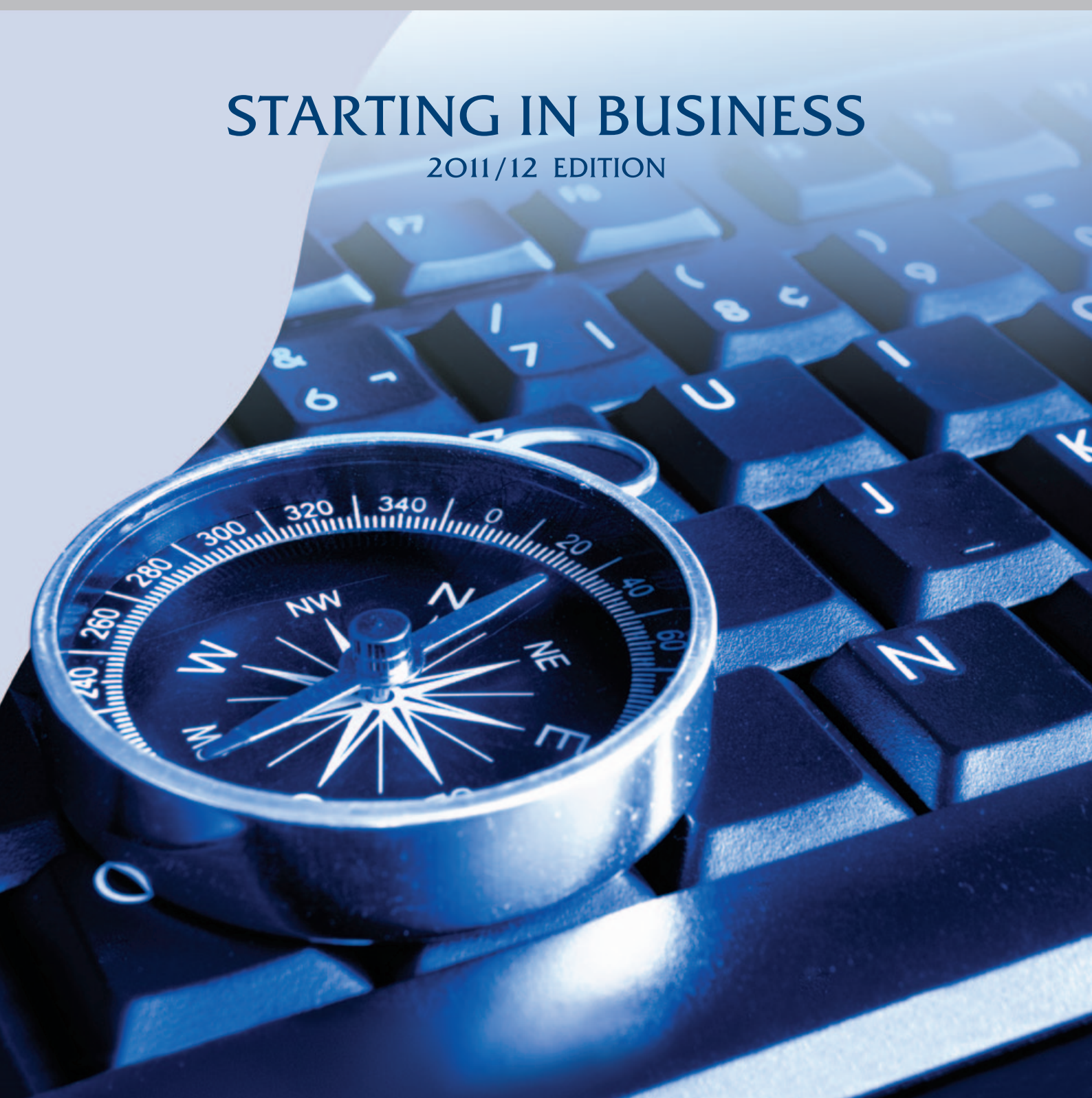
Chartered Accountants

ENTERPRISE

MILSTED LANGDON: BUSINESS ADVANTAGE • PEACE OF MIND

STARTING IN BUSINESS

2011/12 EDITION



CONTENTS

THE FIRST STEPS

Welcome	1
Business foundations	1

FINANCIAL

Overview	2
Invoices	2
Business expenses	3

TAXES

Overview	4
PAYE/NIC	4
VAT	5
Corporation Tax	5
Tax returns	5
IR35	6
Accountants	6
Why Milsted Langdon?	7
Tax efficient extraction of funds	7
Dividends	8
Salary	9
Insurance	9

REFERENCE MATERIAL

Overview	10
Timetable	10
Relevant forms	11

THE FIRST STEPS

WELCOME

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

However, nobody said that it was easy. That's why the team at Milsted Langdon is pleased to provide this guide to starting in business, which aims to take you through some of the important issues you will need to consider.

If you need any more information or advice, please don't hesitate to contact one of our offices or visit our website www.businessstartupsouthwest.co.uk

After all, we've been helping people just like you achieve success for more than 23 years.

BUSINESS FOUNDATIONS

Before we consider actively running your business, it is vital to check you have the right foundations in place.

Whilst changes can be made at a later date, it is important to select a suitable trading structure from the outset. Typically, this can be either as a sole trader, a partnership or limited company. If you have not already decided on a structure then please speak to us, as there are some significant differences in the taxation and administration of the different types of entity.

This guide covers matters affecting limited companies. However, 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.

Whilst 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. Changes at a later date can be costly - once the company has started to trade profitably, shareholdings will represent a valuable asset which may attract a tax liability if transferred.

FINANCIAL

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, the expenses that can be offset against the company's income, 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 the various methods of extracting funds from the company.

INVOICES

Since a limited company is legally separate from its directors and shareholders, it is important to establish a company bank account from the outset. Whilst business bank accounts may attract charges, using a personal bank account can cause numerous issues, not least with HM Revenue & Customs.

Before your customers can pay you, you will need to issue them with an invoice, which should contain a number of important pieces of information.

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

VAT should only be added if you are registered for VAT, and have received a VAT number from HM Revenue & Customs. If you are still awaiting a VAT number, there is a specific invoicing procedure to be followed to ensure that the correct amount is collected – please speak to us for details.

Further details regarding both compulsory and voluntary VAT registration can be found later in this guide.

BUSINESS EXPENSES

As you would expect, expenses incurred in running your business can be offset against your income in calculating your profit or loss for the year.

It is important to recognise the key difference between expenditure on capital items (such as the purchase of new premises, equipment or machinery) and expenditure on revenue items (the ongoing running costs of the business).

Capital items are added to the company's balance sheet and are generally written off against profits over their useful economic life (known as depreciation). Revenue expenditure, however, is generally offset against income of the year to which it relates.

In order to attract a Corporation Tax deduction, expenses must have been incurred "wholly and exclusively" for the purposes of the trade. There are a number of specific rules which apply only for tax purposes.

Some of the more commonly encountered business expenses include:

- **director's salaries:** a salary paid to the director for the company counts as an allowable expense, together with associated National Insurance Contributions (NICs)
- **salaries for company secretary:** whilst a certain amount can be paid for company secretarial services (often to the spouse or partner of the owner), the amount paid should not be excessive in comparison to the services provided
- **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. Home to work travel almost invariably counts as private travel and should not be claimed
- **accommodation whilst away on business:** this covers the full cost of staying in a hotel or guest house whilst on a business trip
- **subsistence whilst away on business:** you can claim for breakfast and an evening meal, as well as a small allowance of £5 each night to cover incidental items such as laundry and newspapers
- **mobile telephone costs:** the provision of a mobile phone, the line rental and the cost of private calls paid by the employer can be claimed and are exempt from any tax charge, providing the contract is in the company's name
- **home office costs:** it is possible to claim an apportioned element of household running costs if a room is used exclusively for business purposes, or alternatively small flat rate allowances may be available
- **employer pension contributions:** can be deducted as business expenses providing they are reasonable in comparison to the overall remuneration package of the individual concerned
- **training costs:** the costs of attending courses to maintain skill levels, or enhance existing skills can be claimed as a business expense. The travel and hotel costs associated with attending are also allowed
- **business entertaining:** entertaining suppliers and customers can be claimed as a business expense for accounting purposes, although will not qualify for a Corporation Tax deduction. VAT is not deductible on entertaining costs
- **staff entertaining and annual events** such as a Christmas party can be claimed as a business expense. However, it should be noted that a taxable benefit will arise on the individuals concerned if the cost of annual events exceeds £150 per person
- **professional fees:** legal, professional and accountancy fees incurred on business matters can all be offset against profits, although the tax deductibility of these costs varies depending on the nature of the cost.

TAXES

OVERVIEW

The UK tax code is one of the longest and perhaps most complex in the world, and getting to grips with the various types of tax payable and the myriad of specific rules can be a daunting task for those starting in business.

It is important, however, 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.

The following is a brief summary of the key taxes which you will need to consider:

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 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. If the deductions made are less than £1,500 per month it is possible to make quarterly, rather than monthly, payments. The payment date is the 19th of the month on a quarterly basis.

After the end of the tax year, you must send HMRC an Employer Annual Return (Form P35) and report the expenses or benefits you've provided to directors and employees (Form P11D). Certain benefits in kind attract a National Insurance charge, which is payable by the company, as well as being subject to income tax in the hands of the recipient.

During June 2010, the Chancellor announced a new Regional Employer National Insurance Contributions Holiday for new businesses. This will continue until 5 September 2013. The NIC holiday is designed to assist new businesses who start up outside Greater London, the South East and the Eastern regions of the UK. The NIC holiday applies to the first 10 qualifying staff taken on in the first year of business, with a maximum saving of £5,000 per individual or £50,000 in total. There are some detailed conditions attached to the scheme – please speak to us for details.

VAT

Value Added Tax (VAT) is charged on most goods and services provided by VAT-registered businesses in the UK. It may also be 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. If your turnover is less than this, your business could still benefit from registering.

Some businesses may be better off operating within the flat rate VAT scheme, as long as their annual turnover is less than £150,000. You might also benefit by choosing to account for VAT on a cash as opposed to an invoice basis. We can provide further information on the various options available, if needed.

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

CORPORATION TAX

Corporation Tax (CT) is paid by limited companies on their profits. Once you have completed the Corporation Tax – New Company Details form, which will be sent to you by HM Revenue & Customs, you will be registered to pay CT.

For profits up to £300,000, CT is paid at the small companies' rate of 20%, and for profits over £1.5 million a main rate of 26% 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 and submit a CT return every year with your annual accounts and make any payment of tax 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 31 October, the return must be submitted by the following 31 January. The income tax due is payable on 31 January. You may also be required to make payments on account for the following tax year, based on the liability of the previous year. Payments on account are due in equal instalments on 31 January and 31 July.

Returns issued after 31 October must be completed and returned to HM Revenue & Customs (HMRC) within three months. As a rule, you then have 30 days from the date of the request for payment to make that payment.

If you are a company director or have any sources of untaxed income (for example rental income) and have not received a tax return, you should contact HMRC to request one.

IR35

The Personal Service Company or IR35 legislation was introduced in April 2000 in an effort to equalise the tax position of individuals who choose to operate through a limited company, but otherwise have an employee/employer type arrangement with one or more customers.

The legislation applies where, but for the presence of an intermediary (such as a limited company), the relationship between the owner of the company and the customer would be one of employment.

The attractions of operating through a limited company are obvious, and can often result in significantly lower tax liabilities, particularly where income is extracted from the company as dividends, avoiding an NIC liability.

The IR35 legislation, and the tests undertaken to determine whether the relationship has the hallmarks of an “employment type relationship” are complex, and professional advice should be taken at an early stage.

This is particularly important if you have a limited number of customers, carry out the contract personally, were formerly employed by your major customer or operate in a similar manner to their employees.

ACCOUNTANTS

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 dealing with 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 MILSTED LANGDON?

At Milsted Langdon, we combine a proactive, efficient, cost-effective service with the specialist skills often only available from the larger national accounting firms, all delivered with a personal touch.

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

- registration with HM Revenue & Customs for all taxes
- registration for VAT on a voluntary or compulsory basis
- setting up a PAYE scheme for payroll purposes
- setting up and managing the company's statutory books
- advice regarding shareholders' agreements and service agreements
- planning the optimum means of extracting income
- pension planning
- outsourced bookkeeping and payroll
- assistance with forecasting and cash flows
- equity and bank fundraising
- share scheme planning to attract high calibre recruits
- production of information to support bank borrowing
- succession planning
- proactive tax planning and profit improvement
- investigation of potential targets for acquisition.

TAX EFFICIENT EXTRACTION OF FUNDS

There are a variety of methods of extracting value from a limited company, to reward yourself for your efforts, the most common of which include salary and dividends. Other methods, which are beyond the scope of this guide, include extracting funds as loans, pension contributions, or by taking benefits in kind.

The tax treatment of taking income as either salary or dividends is very different. In many cases, it may be that a combination of the two is the most sensible route.

DIVIDENDS

Dividends are payments made to shareholders from the company's profits. If your company has not made a cumulative profit (taking all years together), it is unable to pay a legal dividend.

Dividends should generally be paid pro rata to the shareholdings in the company, although it is possible for one or more shareholders to formally waive entitlement to a dividend to enable funds to be split in different proportions.

Whilst dividends carry what is known as a notional tax credit, the most straightforward means of understanding the tax you will pay on dividend income is to consider the effective tax rate.

To the extent that dividend income falls within your personal tax allowance and basic rate tax band, no further income tax is payable. From a practical perspective, and assuming you have no other income, dividends of around £38,000 can be extracted without any income tax or NIC liability.

To the extent that dividends push you into the higher rate tax bracket, the effective income tax rate is 25%. In the additional tax band for incomes over £150,000, the effective rate of income tax on dividends will be 36.11%.

To determine the extent to which the basic rate band has been utilised, the gross dividend must be considered. The cash dividend extracted must be "grossed up" by multiplying by 100, and then dividing the resulting figure by 90.

Whilst dividends are clearly more favourable from an income tax and NIC position, it should be noted that they are not an allowable deduction when computing your company's taxable profits.

As a result, the company will pay more Corporation Tax if dividends are taken rather than salary. Although specific advice should be taken, in overall terms and in most situations, dividends tend to be the more tax efficient mechanism of extracting funds.

SALARY

Salary or bonus payments represent cash which is extracted through the company's payroll, with income tax and NIC being paid via the PAYE system.

Many businesses use a payroll bureau to operate their payroll. The PAYE legislation can be complex, and using an independent bureau, such as the team at Milsted Langdon, can save both time and costly errors.

When deciding what level of salary to pay yourself, there are two limits which should be considered. The first is your NIC free allowance of £7,225 (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 October 2011).

A Guidance Note on the application of the NMW rules to directors was issued by the Tax Faculty of the Chartered Institute of Chartered Accountants in England and Wales during September 2000, with the agreement of the DTI and HM Revenue & Customs.

As a general rule of thumb, this guidance note confirmed that "if the director is not bound by a specific contract, then he is not likely to be a worker who needs to be bound by the National Minimum Wage".

It is generally advisable to ensure that your individual NIC record is maintained to retain your entitlement to basic state benefits, including the state pension. As a result of this, many director / shareholders choose to take a relatively low salary, with remaining income being extracted as dividends.

It is essential that you take specific professional advice on the best method of extracting funds from the company, that are relevant to your individual circumstances.

INSURANCE

All new businesses should consider taking out insurance cover to protect themselves and their businesses should things go wrong.

There are three main 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% 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.

Other types of insurance should also be considered, 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

- 19 January: payment of PAYE/NIC deductions for the quarter ending 5 January.
- 31 January: VAT Returns and payment for quarter ending 31 December.

April

- 19 April: payment of PAYE/NIC deductions for the quarter ending 5 April.
- 30 April: VAT Returns and payment for quarter ending 31 March.

May

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

July

- 6 July: P11d and P11d(b) to reach HMRC after the end of each tax year.
- 19 July: payment of PAYE/NIC deductions for the quarter ending 5 July.
- 19 July: payment of Class IA NICs on certain benefits in kind, such as company cars.
- 19 July: Form 42 relating to new issues of shares or securities during the previous tax year.
- 31 July: VAT Returns and payment for quarter ending 30 June.

October

- 19 October: payment of PAYE/NIC deductions for the quarter ending 5 October.
- 31 October: VAT Returns and payment for quarter ending 30 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

SPECIALISMS

- Audit and Accountancy
- Business Intelligence
- Business Tax
- Corporate Finance
- Financial Services
- Forensic Accounting
- Insolvency
- International
- IT Consultancy
- Legacy Services
- Mediation
- Payroll Bureau
- Personal Tax
- Private Client Services
- Property
- Public Sector
- Wind-downs
- Taxation
- VAT Consultancy

TAUNTON OFFICE

Winchester House,
Deane Gate Avenue,
Taunton, TA1 2UH
Tel: 01823 445566
Fax: 01823 445555

BRISTOL OFFICE

One Redcliff Street,
Bristol,
BS1 6NP
Tel: 0117 945 2500
Fax: 0117 945 2545

YEOVIL OFFICE

Motivo House,
Yeovil,
BA20 2FG
Tel: 01935 383500
Fax: 01935 383511

Disclaimer - for information of users: The information in this document is intended for general advice only and no action should be taken in respect of individual circumstances without receiving specific advice.

MGI is a worldwide alliance of independent auditing, accounting and consulting firms. Neither MGI nor any member firm accepts responsibility for the activities work, opinions or services of any other members.

