

A large number of individuals consider starting their own business every year. In fact 75% of businesses in the UK are SME's (small and medium enterprises).

There are a number of reasons why individuals decide to run their own business. Some may have been made redundant and find themselves with free time and financial resources. Others make the decision to start up in business to be more independent and obtain the full financial reward for their efforts.

Whatever the reason for starting a new venture each business will have to confront a number of issues and problems before realising their goal of running a successful profitable organisation. Those businesses that successfully avoid these pitfalls are those that seek out professional advice before commencing with their new venture.

This factsheet briefly covers a number of issues that should be considered before trading begins. The factsheet is for guidance only and we strongly recommend you contact your local **abacus** accountant for a detailed review.

Initial considerations

In order to make your business a success there are a number of key factors which should be considered:

- **Commitment** – starting a business is demanding. Determination and enthusiasm are essential.
- **Skills** – you will need managerial, financial, technical and marketing skills. If you do not have these skills personally, they can be found in a partner or employee, or subcontracted to a professional.
- Your product or service should have a proven or tested market, but must not conflict with the patent or rights of an existing business.

In addition to these general considerations there are a number of more specific matters.

The business plan

The business plan is the key to success. If you need finance, no bank manager will lend money without a sensible plan.

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

Business structure

There are three common types of business structure:

- **Sole trader**

This is the simplest form of business since it can be established without legal formality. However, the business of a sole trader is not distinguished from the proprietor's personal affairs.

- **Partnership**

A partnership is similar in nature to a sole trader but because more people are involved it is advisable to draw up a written agreement and for all partners to be aware of the terms of the partnership. Again the business and personal affairs of the partners are not legally separate. A further possibility is to use what is known as a Limited Liability Partnership (LLP).

- **Company**

The business affairs are separate from the personal affairs of the owners, but there are legal regulations to comply with.

The appropriate structure will depend on a number of factors, including consideration of taxation implications, the legal entity, ownership and liability.

Business stationery

There are minimum requirements for the contents of business stationery, both paper and electronic, which will depend on the type of business structure.

Books and records

All businesses need to keep records. They can be maintained by hand or may be computerised but should contain details of payments, receipts, credit purchases and sales, assets and liabilities. If you are considering purchasing computer software to maintain your records, obtain professional advice from your local **abacus** accountant.

Accounts

The books and records are used to produce the accounts. If the records are well kept it will be easier to put together the accounts. Accounts must be prepared for HMRC and if a company is formed there are strict legal requirements as to their format.

A company and an LLP may need to have an audit and will need to make the accounts publicly available by filing them at Companies House within a strict time limit.

Taxation

When starting in business, taxation aspects must be considered.

- **Taxation on profits**

The type and rate of taxation will depend on the form of business structure. However, the taxable profit will normally differ from the profit shown in the accounts due to certain expenses which are not allowed for tax purposes and the timing of some tax allowances.

- **National Insurance (NI)**

The rates of NI contributions are generally lower for a sole trader or partnership than for a director of a company but the entitlements can also differ. In a company, it may be possible to avoid NI by paying dividends rather than salary.

- **Value Added Tax (VAT)**

Correctly accounting for VAT is an essential part of any business and neglect may result in a significant loss.

When starting a business you should consider the need to register for VAT. If the value of your taxable sales or services exceeds the registration limit you will be obliged to register.

Employing others

For the business to get off the ground or to enable expansion, it may be necessary to employ staff.

It is the employer's responsibility to deduct income tax and national insurance and to account for student loan deductions. The balance must then be paid over to HMRC. Payroll records should be carefully maintained. To ensure compliance with all PAYE and NI legislation a cost effective solution maybe to subcontract all payroll services to the **abacus** Payroll Bureau.

You will also need to be familiar with employment law. Again your **abacus** accountant will be able to support you.

Premises

There are many pitfalls to be avoided in choosing a property. Consideration should be given to the following:

- Suitability for the purpose
- Compliance with legal regulations
- Local by-laws
- Physical restrictions such as access.

Insurance

Comprehensive insurance for business motor vehicles and employer's liability insurance are a legal requirement. Other types of insurance such as public liability, consequential loss, business assets, Keyman and bad debts should be considered.

Pensions

Putting money into a pension scheme can be a way of saving for retirement because of the favourable tax rules.

Since the introduction of the automatic enrolment legislation on 1st October 2012, it is now no longer a statutory requirement for employers with five or more employees to designate a stakeholder pension arrangement for their employees. Instead, employers are now required to enrol their 'eligible jobholders' into a pension scheme that meets specific conditions to be an automatic enrolment scheme. The date by which employers are required to do this varies according to the size of each employers' payroll and will gradually be phased in over the next few years.

The introduction of automatic enrolment duties does not affect an employer's obligation in relation to its employees who are already members of an existing stakeholder arrangement.

How abacus can help

Whilst some generalisation can be made about starting up a business, it is always necessary to tailor the strategy to fit your situation. Any plan must take account of your circumstances and aspirations.

Whilst business success can never be guaranteed, professional advice can help to avoid some of the problems which befall new businesses.

abacus would welcome the opportunity to assist you in formulating a strategy suitable for your own requirements. We can also provide key services such as bookkeeping, management accounts, VAT return and payroll preparation at an early stage.

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