Guide to setting up your business
2010 - 2011
Welcome to The Made Simple Group’s ‘Guide to Setting up Your Business’. The collective wisdom and experience of a number of people has been harnessed to create this eBook – individuals with experience in Finance, Tax, IT, in fact all key areas of running a business. Starting a new business is one of the biggest decisions you will make in your lifetime. Potentially, it will enable you to fulfil your dreams, grow as a person and create something of value. Unfortunately, whilst all new businesses are started with best of intentions, the plain truth is that four out of five of them will probably not exist a year from now.

This Guide aims to help you ensure that you have thought about everything necessary to be successful and not end up as another statistic. It is not the answer to every business problem, but more a route map identifying places for you to visit on your journey.

Please read it carefully, make notes of action points and THINK about your next steps very carefully.

For the information of users:

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Introduction

Whether you have been planning your new business for months, redundancy, or you simply made a sudden decision to go it alone, becoming your 'own boss' can be a daunting step. Many of us take for granted the safety and security of having someone else make decisions that affect our day to day working existence and ensure that there is sufficient money available to pay the bills.

Starting your own business removes that safety net and suddenly plunges the new business person into a world where only the strongest survive. Unless you really have no alternative, making this big decision should not be taken lightly. Business failures in the start up community are so high that you are working against the odds from the moment you start. Not everyone has the skills, personality, temperament and ability to run their own business and it is vital to really ask yourself if you have what it takes.

However, starting and running your own business and making it a success can be a very rewarding experience and a great deal of fun.

This Guide should help you appreciate the many issues that are involved.

Before starting up

It is the ambition of many people to run their own business. However, with the statistic that four out of five new businesses fail in the first two years – the more forethought you give to the job of running your own business, the more likely you are to succeed.

Some of the questions you should consider before you start:

- Are you the sort of person who can succeed in business?
- Have you any funds you can put into the business?
- Are you familiar with the legal requirements that will be placed on you as a business proprietor?
- Have you considered how much you will earn during your first year?
- Do you need help raising finance for your business?
- After business expenses, including taxation and national insurance, have you estimated what your salary and profit could be?
- Have you considered how you can minimise your tax liability so that you keep more of what you earn?
- Have you considered how technology can benefit your business?
- Have you decided how the internet can be used to your advantage?

There are also a number of other important actions you should consider:

- Keep every VAT receipt for the purchases that you make during the setting up process and continue to do so thereafter.
- Make a note of important dates and events – they may be important at a later date.
- Record all expenditure that you incur for your new business, even if you don’t have a receipt.
- Observe more closely how friends and acquaintances run their businesses – both good and bad.
- Write down your specific goals and aspirations on paper. This will help you to think about them clearly.
- Understand your role as a potential owner of a new business. It is more than just a glorified job, it’s your chance to build something of value.

Business notes

Many of us take for granted the safety and security of having someone else make decisions that affect our day to day working existence and ensure that there is sufficient money available to pay the bills.

Starting your own business removes that safety net and suddenly plunges the new business person into a world where only the strongest survive.
Finally the following are some key points to making your business a success:

- Don’t just do it for the money. You really need to be passionate about whatever you do. Starting a business is rarely, if ever, an immediate route to riches.
- Do something you know about. If you go into something you know little or nothing about, you have made things much harder from the start.
- Have a mentor. Having a mentor can be a huge support and can help you with those critical early decisions.
- Funding. Make sure you have enough cash to get you started and to keep you going in those first few months when sales may be slow, but don’t spend too much time trying to raise the capital. A great deal of time is wasted by new start ups trying to raise funds. It is critical that you put all your energies into your business and not into raising funds.
- Cash management. Cash is king. Manage it well. Ensure you have appropriate forecasts and monitor against expectations.
- Have a plan. A business plan is essential to any new business, without a plan, you are very unlikely to succeed.
- Build sales before anything else. A lot of people spend too much time getting things such as a nice design and the website sorted, instead of getting out there and closing a sale. Getting that first sale is crucial. It will give you confidence and spur you on.
- Don’t try to rush. It may well be that your offering isn’t quite right. Don’t rush things and try tweaking what you do and how you market it until you find something that works.
- Keep things at a variable cost. In the early stages, particularly when you are a small business, you don’t want to get locked into anything you can’t get out of easily. Don’t be afraid to use a probationary period for staff. Be wary of recruitment fees but similarly know when to pay a bit more for quality staff.
- Don’t give up too soon. Keep trying for as long as possible, but don’t be afraid of making changes to your plan.
It is easy to become so enthusiastic and wrapped up in your brilliant idea for a new business that you can lose your objectivity.

Regardless of how great an idea you and your friends think it is, have you taken into account what potential customers will make of it? One of the most common faults of new business plans is a lack of proper market research to support the business proposition.

To put your new venture into perspective you will need to provide detailed information on potential customers (different customer groups), competitors (both direct and indirect), suppliers (of everything you will need for the business), human resources (who you are going to need and how you will find them), and operations (the location of your office, the shop, etc.).

When you are starting out it is unlikely that you will be able to afford the services of a market research company to help you with all this, so you will probably be doing it yourself. But going through this process is a good way of making sure your feet are planted firmly on the ground.

If you can do all of the above and still think that the business has significant potential, you are far more likely to be able to persuade investors, and customers, to believe in you.

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

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

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

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

Buying an existing business is often a quick way to get ‘up and running.’ It may well be that the business in question has underperformed or you believe that your skill and expertise will enable you to be more successful than the current owner. As with all major decisions there are a number of important points to consider in buying a business:

- Take appropriate financial and legal advice.
- Carry out your own due diligence.
- Fully understand the advantages and disadvantages of buying a business.

Advantages

- The business is ‘up and running’ already.
- It is likely to have an existing client base.
- The previous owners are likely to lend support and goodwill.
- The business can be sold on by yourself.
- Generally more chance of success than starting a similar business from scratch.

Disadvantages

- A large investment is often required.
- There can be significant hidden costs with lawyers and accountants.
- The risks of failure are potentially greater.

Buying into a franchise

Franchising is a common method of starting a business by adopting a tried and tested formula. A franchise is a method of running an enterprise with a ‘blueprint’ designed by a franchiser licensed to the franchisee.

In exchange for a fee of varying amounts, you, (the ‘franchisee’) pay a fee to the company with the product/service, (the ‘franchisor’), for the rights to market the product or service usually for a set time period in a specific area.

In the UK there are currently more than 700 different businesses run as franchises, across a broad range of categories:

- There are an estimated 330,000 people directly employed in franchising
- The combined turnover of franchises in the UK presently stands in excess of £9 billion
- The most common franchises are in the catering, retail, and construction sectors

The UK British Franchise Association advises that over 95% of these franchises are profitable 5 years down the line.

When you become a franchisee, you buy the rights and obligations to run a small business, using the brand and operating the system provided by the franchiser. You also receive continuous support, which usually includes:

- Training
- National promotion
- Administration services
- Ongoing product, service, and system development

How much you pay for these services will usually be calculated as a proportion of turnover. Beware of franchisers who require you to pay fees irrespective of your business success.
When you buy a franchise, you benefit from:

- The use of a tried and tested format, with substantially reduced chances of making mistakes
- A brand with a name and reputation already established
- A failure rate lower than that for independent businesses
- The ability to sell or assign business easily - and to realise any capital gains earned
- A form of self-employment
- More favourable treatment from banks, with many offering franchisees up to two-thirds of the total investment

However, there are also minuses:

- An element of risk in choosing the right franchiser
- Potentially considerable initial financial outlay
- The need to pay continuous fees
- A limited ability to run the business your own way
- Dependency on the franchiser and other franchisees

You need to do thorough research before choosing a franchise:

- Check that the franchiser is a member of the British Franchise Association, whose members are bound by a code of conduct and have a proven track record
- Examine the franchiser’s accounts to ensure that the business has traded successfully, and that the franchiser is solvent
- Consider the market potential of the concept, and its ability to generate an adequate return
- With expert advice, check the franchise agreement (N.B. there are no laws specifically governing franchising)
- Establish clearly what you will be receiving in exchange for your investment - not only at the outset but throughout the duration of the contract, which could be as long as 20 years
- Obtain a list of past and present franchisees from the franchiser, and ask them about their experiences
- Ensure that the projections of the franchiser’s plan reflect actual performances

You should seek expert assistance and advice in a number of areas:

- Guidance on the terms of the franchise agreement
- Preparation of your business plan
- Arranging finance
- Bookkeeping, PAYE, and VAT
- Preparation of accounts
- Practical advice on how best to grow your business

If you want to investigate the possibility of buying a franchise, start by researching what would be the right one for you. Then invest time and money in expert, professional advice before making a final decision. You should allow up to six months for this process.

Don’t be misled into thinking that buying a franchise is a short cut to easy riches. Most franchisees work very hard, and though statistics indicate that the risks for franchisees are lower than those for other business options, there are still risks. Nevertheless, franchises are becoming an increasingly popular business option, and are well worth consideration.
Starting from scratch
Whether it be on your own or in conjunction with others, starting from scratch can be the most rewarding way of starting in business. If successful, the rewards, both material and psychological can be substantial. Unfortunately, the chances of failure are very high.

Whilst you have the opportunity to establish your business exactly as you want it to be, you also have to face a very steep learning curve as you grapple with many new concepts.

Advantages

• You control your own destiny
• All profits belong to you
• Growth can be more easily controlled
• Greater sense of achievement

Disadvantages

• Very steep learning curve
• Everything has to be set up from scratch
• Danger of losing focus

Become an agent or reseller
Many companies have a product or service that can be sold full or part time on a self-employed basis. This is often the easiest way to get started on your own although the scope to really build a business in this way is very limited.

Similarly, acting as a reseller is a relatively simple way to start in business.

Many, if not most of these opportunities fall into the sphere of ‘network marketing’, which can require you selling to friends and family.

Becoming an agent or reseller will provide you with little freedom of action as many of the decisions associated with running your own business are dictated to you. However, it can be a good way to ‘dip your toe in the water’.

Business notes
“...If successful, the rewards, both material and psychological can be substantial. Unfortunately, the chances of failure are very high.”
Choosing a 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 organisations. Each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

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

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

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

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

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

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

**Limited Liability Partnership**
The Limited Liability Partnerships Act 2000 creates a new type of business entity, the Limited Liability Partnership (‘LLP’). The LLP offers limited liability to its members but is tax transparent and offers flexibility in terms of its internal organisation. LLP’s have been available for use since 6 April 2001.

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

The members of the LLP are those persons registered at Companies House as members. The main ‘price’ paid in return for limited liability is public availability of financial statements. An LLP must file audited accounts (prepared on a ‘true and fair view’ basis) annually at Companies House, which must
include the name and profit share of the highest paid member. In addition the LLP must also file details of the name and address of every member at Companies House. At least two members must be 'designated members' responsible for making proper filings at Companies House (and subject to penalties in the event of default).

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

This means that the LLP may be more tax efficient than a limited company. This is because ordinarily a limited company is taxed on its income and capital gains and the company's shareholders are taxed on distributions from the company to them, giving rise to potential double-taxation.

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

**Limited Company**

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

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

A limited company must file annual tax returns (‘corporation’ tax returns) with HM Revenue & Customs.

Incorporating a business allows a number of other advantages such as the ease of bringing in additional capital through the sale of share capital, or allowing an individual to sell or transfer their interest in the business. It also provides for business continuity when the original owners choose to retire or sell their shares.
Choosing a legal entity

### Business Structure - The Pros and Cons

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<th>Company</th>
<th>Sole Trader/Partnership</th>
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<td>A company must be formally incorporated with a written constitution in the form of a Memorandum and Articles of Incorporation. There is, therefore, an initial setup cost.</td>
<td>There are no formation costs, but a written partnership agreement is advised.</td>
</tr>
<tr>
<td>Companies are governed by the companies Acts. A company must:-</td>
<td>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 Inland Revenue tax returns.</td>
</tr>
<tr>
<td>- Keep accounting records</td>
<td></td>
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<tr>
<td>- Produce audited accounts (if turnover &gt; £6.5m)</td>
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<tr>
<td>- File accounts and an Annual Return with the Registrar of Companies. This information is available to the public.</td>
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<tr>
<td>- Keep Statutory Books</td>
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<tr>
<td>Companies may have greater borrowing potential. They can use current assets as security by creating a floating charge.</td>
<td>Sole traders and partners are unrestricted in the amount and purpose of borrowings but cannot create floating charges.</td>
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<td>Shares in a company are generally transferable – therefore ownership may change but the business continues.</td>
<td></td>
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<tr>
<td>Incorporation does not guarantee reliability or respectability but gives the impression of a soundly based organisation. Personally, there may be prestige attached to directorship.</td>
<td>The unincorporated business does not carry the same prestige.</td>
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<tr>
<td>Tax is payable on directors’ remuneration paid via PAYE on the 19th of the following month. If applicable, higher rate tax is paid by shareholders on dividends under the self-assessment rules. Corporation tax is payable 9 months after the year-end.</td>
<td>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. Tax for 2010/11 is payable:- first payment on account on 31 January 2011, second payment on account on 31 July 2011, with any final balance due on 31 January 2012.</td>
</tr>
<tr>
<td>Losses in a company can only be carried forward to set against future profits.</td>
<td>Losses generated by a sole trader or a partner can be set against other income of the year or carried back to prior years.</td>
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<tr>
<td>For profits up to £300,000 tax is charged at 21% (2010/11)</td>
<td>Profits are taxed at 40% on taxable income in excess of £37,400 and at 50% over £150,000 (20010/11)</td>
</tr>
<tr>
<td>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.</td>
<td>A partner/sole trader will pay Class 2 NI of £2.40 p.w. and Class 4 NI dependent on the level of profits.</td>
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What is Marketing?
Marketing is a term that means many things to different people. Many people confuse it with advertising, which is only one of many aspects of the marketing mix. Marketing includes many areas such as:

- Branding
- Design
- Pricing
- Direct Mail
- Websites
- Exhibitions
- Market Research
- Brochures
- Advertising

Marketing covers everything that is required to ultimately sell your product/service to your target market. Many commentators refer to the 4 P’s of marketing or the ‘marketing mix’.

The 4 P’s of Marketing

- **Product**
  Product covers the physical aspects or intangible characteristics of the product or service you are planning to sell. It can include packaging, appearance, warranty etc.

- **Pricing**
  Pricing should take into account profit margins and the pricing of your competitors. It should also include areas such as discounts and financing options.
  Understanding your margins is a critical area for every business. The margin, sometimes referred to as your ‘Gross Profit’ is the difference between the selling price of an item and the price you paid for it.

Dave is planning to sell beach towels for £9.99 and he is able to buy them for £4.99.

His margin is calculated as:

- **Proposed selling price:** 9.99
- **Cost:** 4.99
- **Gross Profit/Margin:** 5.00

Based on this margin, and if Dave knows the total of his overheads, he can easily work out how many he needs to sell to break even.

As you can see from the example above, the price at which you sell your product/service has got to be sufficient to generate enough profit to at least cover your anticipated overheads based on your estimated volumes. Of course, the price you set has got to take account of the prevailing prices in the market i.e. the prices that your competitors are selling the same product at.
Placement
Placement covers everything necessary to distribute your product/service to your total market. Typical questions you will need to ask yourself might include:

- Are you going to sell online, from a shop, door to door?
- How will your customers pay?
- Is delivery/distribution an issue?
- Stock control and warehousing – will these be necessary?

Promotion
Promotion covers how you communicate with your target market and will include advertising, telesales, public relations (PR), direct mail, newsletters etc.

Customers
Customers are often central to your marketing and critical to the success or failure of your business. Try and think about the profile of your potential customer. This should help you understand and focus on your target market.

Branding – making your mark
With the structure and name of your business now secured, you’ll no doubt want to convey what it is you do best through effective brand communication.

Benefits
The time and resources spent building brand awareness can be very rewarding. It can help to:

- Position your product or service in the marketplace
- Differentiate your product or service from those of your competitors
- Create positive associations in the minds of potential customers/clients
- Gradually reduce marketing expenditure
- Ultimately increase revenue

Distinguishing mark
When farmers brand sheep they use an easily recognisable mark to distinguish their animals from those of other farmers. In the same way, when you brand a product or a service, you use a name and/or mark to distinguish it from those of your competitors.

Thus, the first principle of branding is that your brand name and/or mark, whether it is a word, a phrase, a letter, a symbol, or even a sound, should be:

- Uncomplicated
- Distinctive
- Easy to recognise
- Easy to remember

Marketing message
The brand also has to carry a message into the marketplace. Its full function is not just to distinguish your product or service from those of your competitors, but also to convey its superiority and values.

What is it about your product or service that is special, or even unique? Why should a potential customer or client choose you rather than one of your competitors? What is the target market or market segment for
your product or service? What need does your product or service meet? What benefits will the purchaser experience? What statement are they making to others by using your product or service?

The answers to these questions will help you define your brand identity. The secret is to create a simple marketing message that conveys your brand identity and then to attach this message to your brand name and/or mark.

Your choice of words, graphics, colours, and even fonts can be crucial in determining the overall effectiveness of your brand, and you might want to seek professional assistance in this area.

Research
It is important to research your brand carefully before launching it:

- Make sure your brand name/mark is not already in use and does not infringe any intellectual property rights.
- Check that your brand name/mark does not have any unfortunate connotations in your target market.
- If you will be trading overseas, make sure your brand name/mark translates well into the language and culture of the countries in which you will be trading.

Building brand awareness
Once you have established your brand identity, the next stage is to start building brand awareness. Basically there are four stages:

To begin with the brand has no presence in the marketplace
Gradually, consumers begin to associate your brand with a particular product or service class.

Eventually the consumer recalls your brand without a visible or audible prompt of your brand name/mark.

Finally, your brand is virtually equated with the product/service class
Perhaps not every business can expect to reach the fourth stage, but most should be able to set the third as a marketing objective.

Building brand awareness is about repetition. Whatever methods you use - print/radio/TV advertising, mail shots, sponsorships, or sweatshirts, pens, and mouse mats bearing your brand name - the important thing is to establish as conspicuous a presence as possible in your target market.

Refreshing your brand
Brands are fickle things, susceptible to changes in fashion and perception. Recently for example, some seemingly robust brands in the UK clothes trade have found themselves sidelined through failing to anticipate changes in fashion or allowing themselves to be wrong-footed by overseas competition; and few of us will recall how a famous jewellery brand lost its glitter overnight through a careless remark by the MD!

Thus, brand building should be a continuous, fluid process. Although one of the key features of successful branding is consistency - conveying a consistent message and image to the marketplace - it is also important to let both the message and the image evolve and adjust to changes in fashion, perception, and so on.

If managed well, brand building can be a significant driver in the growth of your business.
Other Marketing Considerations

Direct Marketing

Direct marketing involves targeting individuals, preferably by name, with information about your product or service. This can be achieved through mail shots (conventional and e-mail), telephone calls, door-to-door sales or face-to-face contact.

Mailshots can be an effective method of spreading your message, particularly if you already have a database of existing customers. Your mailshot might simply comprise your brochure or catalogue, a letter giving details of new products and offers, or a combination of the two.

Letters that begin ‘Dear Client’ or ‘Dear Householder’ smack of impersonality and will often be thrown away by the recipient, so where possible try to obtain the individuals’ names and job titles.

The Royal Mail will be able to help you put together a mailshot for regional coverage, or if you are after a niche market, you might be able to buy a database of named contacts from a marketing agency. Most offer options for one-off use, yearlong lease, or outright purchase of targeted lists.

If you run a mailshot to an existing database, always personalise each letter using the mail merge facility on your computer system.

You can now use e-mailshots as well. The advantages of this method are that you can include a link to your website within the body of the message, and you can track responses by directing customers to a specific page and assessing the number of hits this page gets.

However, you must ensure that you comply with current legislation governing privacy and electronic communications. Companies must now secure the advance permission of the recipient before sending marketing e-mails and text messages to individuals, and must also obtain the agreement of the user before using internet tracking devices, or ‘cookies’.

Selling benefits not features

Before selling your product or service you need to establish what makes it sellable and unique. Promotional literature should inspire and motivate the reader, and this means citing the benefits of your offering more prominently than its features. Customers will identify more readily with buying benefits than an extensive list of product specifications.

Remember, people are interested in what you can do for them, rather than what you do!

Potential customers will also want to know what differentiates your product or service from that of your competitors – and the more unique selling points (USPs) you offer, the more likely you are to sell it.

• This could be superior
• Overall quality of service
• Price incentives
• Speed of delivery
• Niche products
• Specialist services
• Customer response standards
Many businesses have been successful in selling with just one strong USP. For example, a company selling cleaning products will always advertise the idea of a clean house or office that their product brings ahead of its chemical composition.

But avoid contriving USPs that you are not able to justify. Customers can be quick to recognise false claims!

**Getting the stationery right**

The development of your brand and the design of your logo and stationery is an important part of your marketing strategy. Letters, invoices, mail shots, and statements are all forms of advertising.

**Limited companies**

In designing the stationery of a limited company, you must consider the legal requirements detailed below:

**Letters and orders**

- Name of company
- Country of registration
- Address of registered office
- Company number
- Forename or initial and surname of ALL or NONE of the directors
- Invoices
- Name and address of company
- VAT registration number
- Cheques, official publications, and forms
- Name of company
- Premises

The name of the company must be displayed in a conspicuous position outside every office or place where business is conducted.

The address of the registered office has to be displayed prominently within the premises.

**Limited liability partnerships (LLPs)**

The requirements are very similar to those for limited companies:

- Letter and orders
- Name of LLP (as it appears in its Incorporation Document Form LLP2)
- Place of registration
- Address of registered office
- Registered number
- The fact that it is an LLP
- Invoices
- Name and address of LLP
- VAT registration number
- Cheques, notices and official publications
- Name of LLP
- Premises

Every LLP must paint or affix its name on the outside of every office or place in which its business is carried on - even if it is a member’s home. The name must be kept painted or affixed and it must be both conspicuous and legible.
Partnerships
Partnerships are required to state on letters, orders, invoices, and receipts, and to display on the premises, the names of all partners together with the principal office of the partnership. Alternatively, they must indicate where a list of partners may be inspected. Invoices must state the VAT registration number, where applicable.

Sole Trader
A sole trader operating under a business name must state on letters, orders, invoices, and receipts his or her own name and business address. Invoices must state the VAT registration number, where applicable.
What is a business plan?
Completing a business plan encourages you to get past the 'initial concept' stage of your business start-up and, if it's done properly, leads you to estimate, to the best of your ability, real figures.

A business plan can solely be an internal document to guide you in establishing and growing your new venture and/or it can be used for the purposes of raising finance.

It is an essential tool for any business for numerous reasons, but particularly:

- Its preparation will help you focus your thinking
- It will act as a guide as you make decisions
- It will provide you with targets and goals
- It will help you focus on key areas of the business such as pricing
- It will give you an indication of your cash requirement

Planning is:
- Taking prudent, calculated risks rather than blindly reacting to events
- Making the best use of available resources
- Setting a path to achieve the lifestyle you want

All businesses plan to some extent, but the planning is often informal and ill defined. You should always set out your plans in writing, however roughly, because this forces you to define your ideas clearly.

Planning involves considering the following:
- What information you need to assemble
- The initial decisions to be made
- The sales and marketing options open to you

Enlisting support
Assess the expertise and assistance you already have, and decide what additional help you will need to prepare your plan and harness your resources effectively. For example, you might need accountancy, information technology / internet or marketing assistance.

Define your business
Examine your business ideas critically and check these against your initial perception of the marketplace. Identify the key features of your business.

- Analyse its strengths and weaknesses
- Consider opportunities open to you, and the challenges you face
- Scanning the market

The marketplace is the key to the success of your business. You should review the market for your goods or services, and the competition you face.

- Use market segmentation to identify potential customers
- Use market survey methods to characterise your customers and their needs
- Don't lose sight of the fact that a business plan is not just about obtaining finance
Although this may be the result you are looking for, your business plan will be most effective if it is positioned as a ‘working document’ that is continuously evolving and so needs to be updated to reflect market conditions and the business’ performance.

After all, in the absence of a crystal ball even the most forward thinking management team will have difficulty predicting tomorrow.

Contents of a typical business plan

Every advisor has their own format for a business plan and the Internet has many templates and software programs available for purchase.

However, a typical business plan should include:

- Summary
- Objectives
- Mission of the business
- Description of products and service and the business
- Summary of market
- Management (particularly if being used to raise funds)
- Competitor analysis
- Sales and marketing information
- Financial assumptions
- Forecasts

Financial Forecasting

Every business plan will involve an element of financial forecasting. There are many packages available to achieve this or you could use Microsoft Excel. Having an accountant prepare or review the figures is a worthwhile investment to help you question certain assumptions and to ensure that you have dealt with taxes etc properly.

To achieve the best results, you will need to monitor your performance against the plan. This will give you early warning for when you should reconsider your actions in response to market developments.

Consider the key information you need to manage the business, and hence the systems that will provide this:

- Plan to monitor revenues and costs
- Plan to manage cashflow
- Plan to manage people
- Updating the plan

You will need to decide when the plan should be updated and how this should be done:

- Short-term problems may require immediate revisions
- The year end review of results will help in amending the plan
- Do not neglect to review the marketplace from time to time This is a never-ending process.

Businesses evolve and so should your plans. Plans should be designed to enable you to forecast the future, to help you stay ahead of the competition and to assist you in realising your full potential.
Cash Planning and Forecasting

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

The ability to forecast cash resources and uses is an art and is by no means a well-defined science. None of us have a crystal ball and any cash forecast which is prepared by the management of a company or 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.

Starting the Analysis

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

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

Obviously your ability to forecast sales for the next month is better than it is for three to five years from now. The amount of detail that must be included in the cash forecast is really a matter of preference. For example, it can be based on per unit sales - extended out by the sales price of each type of unit, or an average sales volume per day, week or month.
Cash Collections
Once you have determined a reasonable level of sales and you are comfortable with the forecast you have made, you must address questions such as; what percentage of my sales are received in cash, and what portion are credit sales (for which I will have to carry amounts in debtors)? For those that are debtors based, how soon is the cash collected? Do you have to wait for customers to pay you or do third parties such as Visa or Mastercard or a debt factory take the customer’s account and convert it to cash for me with an appropriate discount?

If you are relying on customer payments for collection of debtor balances you must determine what portion of the debts will be collected in thirty days, sixty days, ninety days and thereafter, and what portion, if any, may never be collected. To assume that 100% of your sales will ultimately be converted to cash is probably unrealistic, especially considering the current economic environment and the tight cash situations that may face some of your customers.

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

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

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

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

In addition to the cost of manufacturing, you should consider whether your productive capacity would allow you to generate enough stock to support the level of sales that you are predicting. If the volume of sales you forecast is above your ability to produce today, what changes in your operating environment must be made to meet the production levels required.

- Will you need additional employees, if so, how much will they cost?
- Do you have to acquire additional machinery for your shop operations?
- What is the cost of the machinery and when will you have to pay for it?
- Do you have enough space to cope with the additional activity?

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

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

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

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

Cash flow projections can be very slow, time consuming and tedious to undertake. It is often very tempting to hire someone else to prepare the projections for you. There are a variety of individuals who can help you do this, but the critical factor is that they only help. 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. Whilst 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, the more effort you put into developing the cash flow projections, the more accurate they will be. This exercise may also help you to pinpoint areas of potential cash savings that you might not have otherwise considered.

The following tax matters require consideration as part of the preparation of your cash flow forecast:

**VAT and other taxes**

If you are VAT registered (compulsory for businesses with sales in excess of the statutory limit - £68,000 as of 1st May 2009), your sales receipts will include ‘Output’ VAT and some of your costs will include ‘Input’ VAT.

The net receipt of VAT has to be paid over to H M Revenue & Customs each quarter. If, however, your sales are zero rated, you will be able to claim back the VAT on your purchases.

The basic calculation is not as difficult as is often made out. Typically, adding up your sales receipts for a quarter, multiplying the figure by 17.5 and dividing by 117.5, gives you your output VAT. Do the same for your purchase invoices to calculate input VAT. Deduct input from output and put this figure into your cash forecast in the first month of the next quarter.

(For the period 1st December 2008 to 31st December 2009 the rate of VAT has been temporarily reduced to 15%)
Pros and Cons for registering for VAT

Advantages
• You will be able to recover VAT on your purchases.
• The VAT you can recover will not just be from the date you register for VAT but will include any VAT you have suffered on goods or assets purchased 3 years prior to registering for VAT, providing they are still on hand at the time of registration and that you have the evidence of this such as an invoice.
• For VAT on services incurred prior to starting in business, these can be recovered up to 6 months prior to the VAT registration. The services have to be for business purposes and you must keep an invoice.
• There is generally a considered view that there is an element of credibility in being registered for VAT. If your customers see you as a business not VAT registered, they may well think the business is not large enough to service them properly.

Disadvantages
• VAT is extremely complicated.
• You will have to keep careful VAT records and accounts.
• You will have to send in regular VAT Returns.
• You may well be subject to a higher level of scrutiny by HM Revenue & Customs.
• You may well need additional accounting assistance on VAT issues.
• VAT on petrol is an added complication.

PAYE
If you employ people you will have to deduct tax from their pay and pay it over to HM Revenue & Customs in the following month. For a forecast it is sufficient to put the gross figure in the cash flow forecast as it automatically includes PAYE.

Schedule D
If you are the proprietor of a business that is not a limited company, your wages are part of the profit of the company and referred to as ‘drawings’. The tax that you pay will be based on the profit of the company not the amount that you take out. It is advisable to pay a sum into a deposit account each week to provide for this tax that will be due after your year-end - and it could be a lot of money. Ask your accountant about this!

Many businesses go bust because they fail to provide for the taxes that are payable. Make sure that it does not happen to you!

Six planning steps to success

Step 1: Establish your mission
Your mission statement explains why your business exists. When you encounter a problem or a key decision, the answer will be informed by your mission. Think about why you started the business, what needs of the marketplace you aim to satisfy, and imagine where you want it to be in the future. These elements will provide your mission statement.

Step 2: Analyse your SWOT
With your mission in mind, analyse your business’s strengths, weaknesses, opportunities and threats. List each category in full and be honest. Done correctly, this ‘SWOT’ analysis will help you to take an objective, critical, unemotional look at your business in its entirety.
Step 3: Develop a plan
Try this exercise: from each SWOT category, choose three to five important items. Then set goals to maximise your strengths, correct your weaknesses, make the most of your opportunities and nullify your threats. For example, you could decide to focus more strongly on a particularly successful product or service (a strength), and abandon a side-project which is costing time and money for little return (a weakness). Remember that you can't do everything yourself. Think about how you will delegate tasks and involve all the staff. Avoid dwelling on the negatives - set yourself realistic strategies for improving the business.

Step 4: Create a budget
All missions and strategies need adequate financial resources to succeed. A smart budget will help you to regularly review your expenses and make financially beneficial decisions. You may need to take a wide variety of factors into account when setting your budget.

Step 5: Put it in writing
Make sure you write down your finished plan. Include the mission statement, SWOT analysis, goals and plans, budget and forecasts, and make it clear who is responsible for doing what. Share it with your key staff and shareholders, and encourage their input.

Step 6: Make it a living document
This step is vital! Make your business plan a living document that you and your staff can frequently update and improve. Consider reviewing it monthly to track your progress and readjust your strategy as necessary. Hold yourself and your staff accountable for meeting the plan's goals, and think about introducing an incentive programme to keep everyone motivated.

Six reasons why plans fail

1: A dead document
A business plan that is created for a purpose and then discarded will always become obsolete fast. Making your business plan a living document (see the previous section's step 6) is essential if you don't want the whole process to be a failure. Only a regularly reviewed and updated plan can be the spur to look critically at your business on a recurring basis.

2: Over-optimism
Most business plans are over-optimistic, especially with regards to predicted sales - often massively overestimating the size of the market. Research your market thoroughly. Too many business plans include a SWOT analysis, but concentrate on the strengths and opportunities and ignore the threats and weaknesses.

3: Ignoring the competition
Business plans commonly assume that the competition will make no competitive response or indeed, will have no new initiatives of their own. Study your competitors and try to second-guess their plans. A living document will take into account their actions.
4: New or old?
Too many business plans depend on doing something new, when what is needed is to find a better way of doing what is being done now.

5: Ignoring risk
What are the risks attached to the plan? Think through these and the costs of failure as well as the rewards of success.

6: Profit or turnover?
Remember the old adage, turnover is vanity, but profit is sanity. If expansion is planned, it should result in increased profits, not just sales. Expansion requires finance, people and other resources. Do you have adequate resources?

Remember, a good business plan is as much about the process as the final document. Creating your plan will open your eyes to the realities of your business. Keeping it updated will help you stay on the right track.
Obtaining credit and financing for your business
If not independently wealthy and perhaps even if you are, eventually you will probably need to obtain some outside capital for your business. In some instances, you may need to obtain capital for the initial expenses prior to opening your business or perhaps the funds you require may be required for expansion or working capital during the off season.

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

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

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

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

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

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

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

**Business Plan**

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

**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 this Guide we will only mention a few of the more conventional methods for a young company to obtain capital, though the possibilities are many.

**Debt Financing Sources**

1. **Banks**
   
   The first funding source which typically comes to mind when borrowing money is a bank (which is effectively 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. Loans from a bank may take several forms such as:

   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.

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

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

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

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

A very important source of financing for your company may be from the creditors and suppliers with whom you do business. Many suppliers will originally ask for cash on delivery or, in some instances, they want payment before starting on your order, depending on the nature of your purchase. Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested. 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 instances, before you pay for them. The trade credit you build today will be relied upon by other suppliers as you attempt to establish yourself with other suppliers in the future. Trade credit terms will vary depending on the type of purchase you make, the industry you are buying from and the industry you are in.

**Equity Financing Sources**

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

**Venture Capital Companies**

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

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.

A venture capital firm sometimes requires a 300 to 500 percentage return on its investment over a four to five year investment period. While this may seem like an enormously high return, a venture capitalist is in the risk business and the return on a good investment must help offset those companies that do not meet their projections or fail altogether. To determine the price of such financing, a venture capitalist will start with the amount of financing you require and calculate what he must receive at the time his investment will be sold, to allow him to achieve the rate of return he deems necessary.

Based upon the operating projections you provide, discounted based on his experience, he will estimate what your company might be worth at the time his investment will be liquidated. This might be at the point of a public offering or a sale to a corporate investor. The last step for a venture capital company in determining pricing is to calculate what percentage of the company he must own to realise the return he desires. At this point, the ‘horse trading’ generally begins. As a general rule you will want to retain as much of the ownership of the company as you can. The venture capitalist wants enough ownership to achieve his investment goals and have some control over how his money is spent.

This will often be achieved by voting power and representation on the Board of Directors. At the same time, a venture capitalist wants to be sure there is
sufficient reward in the company, for you and your management team to be motivated and achieve the projections in your business plan.

A venture capital company is often managed by an individual or group of individuals with a strong background in business and management. They can often provide depth of experience and management assistance in areas where your management team may be weak. A venture capital group can very often provide contacts and valuable introductions in your industry. Remember a venture capital investor becomes a member of your team.

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 business 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.
Registering with the tax authorities

A significant task for the new business owner is ensuring that the business is properly complying with the extensive tax and information filing requirements imposed by the various authorities. Problems and penalties 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.

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

H M Revenue & Customs

It is necessary to notify H M Revenue & Customs of your existence by completing forms CT41G (companies) or CWF1 (sole traders/partnerships). You can also telephone H M Revenue & Customs to notify self employment on 0845 915 4515.

The company form CT41G is sent to all new companies after they are incorporated. The form notifies H M 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.

CT41G (Companies) (download) is available here: - http://www.hmrc.gov.uk/CTSA/ct41g-08-05.pdf
CWF1 (download) is available here: - http://www.hmrc.gov.uk/forms/cwf1.pdf
If you fail to register within the first three full months of commencing business a penalty of up to £300 plus a continuing penalty of £60 per day, or £3,000 if information is given negligently or fraudulently by a company.

**NI contributions office**

Depending on the level of profit, sole traders and partners have a liability to Class II NIC, and these are payable either quarterly or monthly by direct debit. Class 2 contributions are at a weekly level of £2.40 (where annual earnings are £5,075 or more for 2010/11) and the necessary form to collect Class 2 contributions should be completed at the same time as the form CWF1. Leaflet CF10 ‘Self-employed people with small earnings’ gives full details and an application form for exemption from liability.

CF10 (download) is available here: - [http://www.hmrc.gov.uk/forms/cf10.pdf](http://www.hmrc.gov.uk/forms/cf10.pdf)
VAT
You need to consider if it is beneficial to be VAT registered from the outset. The pros and cons are discussed in Chapter 4. If you are registering for VAT, form VAT 1 needs completing, and if you are a partnership, form VAT 2 needs to be completed giving details of all the partners.

To register online go to https://online.hmrc.gov.uk/registration/

From April 2010 all businesses with turnover in excess of £100,000 need to file VAT returns online via the internet, and all new VAT registrations irrespective of turnover after that date need to file electronically.

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

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

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

Registration

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

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

a) At the end of any month, the value of his taxable supplies in the period of one year then ending has exceeded the registration limit, which is £68,000 from 01 April 2009.

b) At any time, there are reasonable grounds for believing that the value of his taxable supplies in the next 30 days will exceed the £68,000 limit.

c) If, where a business carried on by a taxable person is transferred as a going concern, the taxable supplies for the twelve months prior to the transfer exceed £68,000.

In the most common situation, i.e. (i) above, the person must notify H M Revenue & Customs of the liability within 30 days of the end of the month in which the value of the taxable supplies first exceeded £68,000. If, for example, the value of the taxable supplies first exceeded £68,000 in the twelve months to 31 March, then H M Revenue & Customs must be notified by 30 April and VAT registration would commence on 1 May.

B. Voluntary
   In certain circumstances, it is possible to register on a voluntary basis for VAT even though the value of taxable supplies may never exceed £68,000. This is normally only beneficial where the majority of supplies are being made to customers who are themselves VAT registered, e.g. it would not be beneficial for a domestic painter with taxable supplies of £30,000 to be registered, whereas it may be beneficial for a commercial or industrial painter with the same level of supplies.

The other situation in which a voluntary registration might be beneficial is where the supplies are all zero-rated and no VAT is charged on the transaction. All VAT suffered by the trader on expenses can be reclaimed from H M Revenue & Customs.
In summary, the advantages and disadvantages of a voluntary registration are as follows:

Advantages

• enables input VAT suffered to be reclaimed;

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

Disadvantages

• the requirement to prepare VAT returns on a quarterly basis and to submit them and if applicable pay over the VAT due within one month of the quarter end - is the amount of work involved worth it for the amount of input VAT that can be reclaimed?

• H M Revenue & Customs may visit the business about every five years to ensure that VAT is being properly accounted for. There may be penalties for incorrect returns.

Taxable Persons and Supplies

a) Taxable Persons

It should always be remembered that it is a person that is registered for VAT and not a business. If a person has two separate different businesses, both with taxable supplies of £40,000, then that person will be required to be registered for VAT and account for VAT at the appropriate rate on the total supplies of £80,000.

It is possible to mitigate the effect of VAT by having one of the businesses operated by a limited company or by a partnership with a relative, but professional advice needs to be taken since H M Revenue & Customs have the power to still treat the two businesses as one if strict criteria are not met.

b) Taxable Supplies

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

The major categories of exempt supplies are:

• Land (but not buildings)
• Insurance
• Postal services
• Betting, gaming and lotteries
• Finance
• Education
• Health and welfare

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

There are three rates of VAT:

1. 17.5% (from 1/1/2010)
2. 5% - for certain supplies of fuel and power and sanitary goods
3. Zero-rated - the four main areas of zero-rated goods are:

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

Any VAT charged by the business, whether at 17.5% or 5% is known as output VAT and the total charged or collected in the VAT quarter is payable to H M Revenue & Customs.

Input VAT

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

- Cars
- Petrol supplied for private usage;
- Business entertaining;
- Goods sold under a VAT second-hand scheme.

To reclaim 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.

Penalties

There are penalties for errors in VAT returns. More details can be found at the HMRC website.

VAT Checklist

Registration

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

Preparation of returns

(a) Has return been received? If not, then obtain duplicate from VAT Office.
(b) Review sources of information.
(c) Prepare draft return.
(d) Check for accuracy and completeness.
(e) Submit the return and make payment (if outputs exceed inputs)

Input Tax

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

Output Tax

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

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

Money Laundering Regulations

HM Revenue & Customs have responsibility for administering certain aspects of The Money Laundering regulations 2003 particularly relating to High Value Dealers (HVDs).

HVDs are those traders who may receive 15,000 Euros (approximately £15,000) in a single transaction or a series of linked transactions. The Regulations principally apply if cash or cash equivalent are offered in settlement.

If you believe you may be a HVD you should discuss this with your advisors or visit the H M Revenue & Customs Website at www.hmrc.gov.uk.

Further if you believe you may be affected by the Regulations as they related to regulated businesses you should discuss this with your advisors as the penalties for not complying are serious.
**Tax Calendar**

The following summarises some of the more significant filing dates for a corporation using a calendar year end. Many of these requirements also apply to partnerships and sole traders. Naturally, if a year-end other than 31 December is used, some of these dates will vary.

<table>
<thead>
<tr>
<th>Date</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>19 May</td>
<td>Submission of forms P35 and P14’s</td>
</tr>
<tr>
<td>6 July</td>
<td>Submission of form P11D</td>
</tr>
<tr>
<td>19 July</td>
<td>Payment of Class 1A NIC</td>
</tr>
<tr>
<td>30 September</td>
<td>Payment of corporation tax (9 months after the end of the accounting period)</td>
</tr>
<tr>
<td>November/December</td>
<td>Year end tax planning</td>
</tr>
<tr>
<td>31 December</td>
<td>Submission of corporation tax return (12 months after the end of the accounting period)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly on 19th</td>
<td>Payment of payroll taxes (under certain circumstances - quarterly)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Return</th>
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<tbody>
<tr>
<td>14 April</td>
<td></td>
</tr>
<tr>
<td>14 July</td>
<td>Forms CT61 to be submitted - tax deducted/received on interest payments</td>
</tr>
<tr>
<td>14 October</td>
<td></td>
</tr>
<tr>
<td>14 January</td>
<td></td>
</tr>
<tr>
<td>Quarterly</td>
<td>VAT returns (although these can be monthly)</td>
</tr>
</tbody>
</table>
Choosing where to work from

Every new business has to make an early decision concerning where they are to be based. Certain businesses, pubs, restaurants, retail and wholesale, engineering etc have to be based where the business activity takes place. However, more and more start up businesses are quite happy to work from home. The structure of the British economy has changed over the last few decades and as we become more of a service economy, there is greater demand for ‘consultancies’. This had led to the ‘SOHO’ (small office home office) market.

Nevertheless, assuming that you don’t have a specific trade related requirement for premises, what are the options open to you.

Working from home

Many start up and small businesses tend to work initially from home. Whether it be a back bedroom or just a spare surface in a lounge or dining room, for the start up business, this is a relatively simple and cheap option. For many, working from home is a good option if you want to keep costs down until the business is established. It allows you to keep any initial set up costs to a minimum and gives you a familiar and comfortable working environment - but there are some important points to consider:

- There may be some issues relating to local authority rates and care should be taken in this respect.
- There may be some insurance points although many domestic policies now include an element of cover for working from home, but checking your policy is important.
- Research does show that people working from home tend to work longer hours as they find it difficult to separate their home and work life.
- Unless you use the services of a virtual office provider (see later), or have a separate business line, it may mean that your private number becomes available and could mean you receiving calls at unsocial times.
- It may not convey the most professional image and is not particularly conducive to meeting with people.
- It can be quite solitary, as the interaction with other individuals is often missed by people working from home.

Virtual office solutions

Many people starting off a business, and working from home, make use of a virtual office solution. The range of services provided by virtual office providers can cover many aspects of running a small business and commonly include mail forwarding, telephone answering, the provision of meeting rooms and some secretarial services. It can also provide you with a unique and separate telephone number and a more impressive business address than that of your residential home.

One of the major advantages of virtual office solutions is that your commitment in financial terms is very minimal as most work on a ‘pay as you use’ basis and don’t involve any long-term investment.

Serviced offices

Serviced offices are a very flexible and attractive option for new start ups and those who want something more than that offered by working at home and/or using a virtual office. It is particularly of interest where people need to collaborate on projects.

Many serviced offices around the country offer short-term licenses with little or no capital expenditure. Some provide ‘hot desks’ and meeting rooms, together with a whole range of other services. The costs of such services are laid out in advance and it is clear what you are paying for.

As with a virtual office, a serviced office can provide you with a more prestigious address and access to additional services and interaction with other businesses.

Over the last few years, there has been a proliferation in the number of serviced offices available and you are recommended to shop around for the one that fits your purposes. There are also a number of agents who specialise
in finding the right serviced office and some have online search engines.

**Leased office space**

Leased office space is really only suitable for a larger business. Apart from the fact that a new business will probably have to lodge a rent deposit, the signing of a lease will normally involve a commitment for a number of years, a liability which could be difficult to escape if things don't work out well.

There will also be legal costs involved, as with leased office space, it is essential that a solicitor reviews the lease documentation.

Most leased office space is let unfurnished so it will be necessary for you to invest in office furniture, telephone equipment and IT infrastructure - so your capital expenditure could be significant.

This is rarely an option for the new start up business unless there are special circumstances.

**What to consider when working from home**

**Can you maintain the work/life distinction?**

Working from home offers flexibility but it also requires true self-discipline and organisation. Making a mental and physical distinction between your home and your working life is essential, both to resist the distractions of the television or garden, and, at the other end of the scale, to prevent work from wholly consuming your life.

Creating a dedicated working area is essential, while separate telephone lines for home and business could help you to maintain the boundary between ‘work’ and ‘home’ time.

**Do you have the right working environment?**

Take the creation of your home office seriously. It should be comfortable, well-lit and properly equipped. Working at the kitchen table is rarely conducive to an efficient frame of mind. Bear in mind that you may need to revise your insurance policy to cover business equipment in the home.

**Will others support you?**

It is one thing to be disciplined yourself - you will also need the support of those around you: beware of constant family interruptions! As a practical tip, a ‘Do Not Disturb’ sign on the office door can work wonders.

**Home working Do's and Don'ts**

- Do establish a daily routine and stick to it
- Do schedule the day’s tasks and meet your own deadlines
- Don’t sleep late on working days
- Don’t run to the refrigerator too often!

**Tax aspects of your home**

**Partial use for business**

If you use part of your home exclusively for business, interest on the relevant portion of the borrowing will be allowed as a business expense.

In these circumstances, a similar proportion of the capital gains exemption will be lost. However, if you use no rooms exclusively for business purposes, the full exemption will normally be preserved.
Home-working expenses

If you work at home, you will want to claim the extra costs of running a home office on your tax return, or from your employer. HM Revenue & Customs (HMRC) has recently changed its view about what employees can claim, but there are also different rules for different types of taxpayer. What can be claimed will also depend on your employment status.

What you can claim

If you are a self-employed person, you can claim costs in your accounts that are incurred wholly and exclusively for the purpose of your business.

Having somewhere to do your business paperwork is essential. If you don't maintain a separate office, you can claim a reasonable proportion of those household running costs that represent the space and time in which your office operation occupies your home. This includes a proportion of your rent, council tax and water rates.

If you are an employee

If you are an employee, you can only claim the additional variable expenses incurred by working at home. These costs amount to the increased energy needed to heat and light your property for longer, and the extra water used if that is metered.

You can also claim the cost of business related telephone calls, but not a proportion of telephone line rental, or part of your mortgage or insurance costs. These amounts are considered to be fixed whether or not you work from home, so you can't reclaim any part.

Reclaiming the costs

HM Revenue & Customs prefers employees to reclaim the costs of home-working from their employers. If you have agreed with your employer that you will work at home for all or part of your working time, your employer can reimburse you for the extra energy used during that time.

If you want to claim more than £2 per week, excluding telephone calls, you must be able to demonstrate that your energy bills have increased by more than this amount.

HM Revenue & Customs's view

If your employer does not reimburse your costs there are some extra conditions to be met before you can make a claim for home-working expenses on your tax return:

The duties performed at home must be ‘substantive’ - that is, they must represent ‘all or part of the central duties of employment’.

Your work must only be possible with certain facilities, such as a specific item of hardware or computer software.

Those special facilities must not be available for you to use at the company's offices.

You must have no option but to work from home.

Your claim will fail if you have any choice about working from home. HMRC's new announcement says that you are deemed to have had a 'choice' even if your employment contract stipulates that you must work from home, if you were also offered a different contract without that stipulation.

In that instance, you can't claim any expenses. This might seem very harsh but it is the interpretation of the law given in the HMRC Tax Bulletin number 79.

The best approach might be for your employer to reimburse you directly for the additional costs of working from home.
The concept of selling doesn’t have to be intimidating, particularly if you think about it in terms of solving a problem or filling a need. And you are doing your customers a disservice if you fail to do everything possible to explain how purchasing from you will benefit them.

The bottom line is that people buy from a business they trust. Creating effective and consistent ways of selling within your business will help build that trust. You’ll increase your sales and your customers will walk away happy, having found just the solution they were looking for.

Here are some basic strategies for creating a sales system within your business:

- Developing a sales technique and process (i.e., creating rapport, asking detailed questions, talking your customer’s language, empathising with their concerns, etc.), and training team members to use it consistently.
- Creating sales tools such as educational documents for your customers.
- Mapping out sales forecasts to determine your direction and a solid path to follow.
- Tracking conversion rates, the difference between the number of enquiries you receive and the number of actual sales, is like taking the sales pulse of your business.
- Include cross-selling, up-selling and bundling products or services together as part of your ongoing sales strategy.
- Avoid using the term ‘quote’ as it focuses the customer on the price rather than the value. Offer a ‘proposal’ or ‘action plan’ instead.
- Have a follow-up system in place - up to 80% of sales are made after the 5th contact!
- One of the keys to a successful sales and marketing programme is being consistent and constant. Setting up an annual promotion schedule keeps you motivated to maintain regular activity. Here are some ideas for your promotional schedule:
  - Hold special events (grand openings, new product unveilings, value-added seminars, contests, etc.).
  - Free publicity through public relations (press releases, editorials, community service, etc.).
  - Web-based promotions (through your own, or someone else’s website).
  - Networking (tradeshows, trade organisations, chambers of commerce).
  - Create a referral system (harnessing the power of word-of-mouth, rewarding customers for referring others).
  - Establish host relationships (you and a non-competing business create joint campaigns that target each other’s customer bases).
Keeping good records is an essential aspect in running a successful business. Apart from the fact that they will form the basis of your annual accounts which need to be submitted to the tax authorities, (and Companies House if you trade as a Limited Company), they are also the only way to make meaningful decisions.

How to reduce the time taken in accounts preparation

- File your invoices and correspondence in order.
- Record and analyse all your cash, credit card and bank transactions.
- Sub-total each page of your cash book and day books, providing totals at the end of each month.
- Reconcile your payment analysis book with your bank and credit card statements.
- Reconcile PAYE, NI, and VAT account balances with amounts due to HM Revenue & Customs.
- List and total your year end creditors.
- List and total your year end debtors.
- List your fixed asset additions and disposals made during the year.
- List and total your year end stock and work in progress.
- Keep back ups of your computer records.
- Reconcile your principal control accounts including sales, purchases and bank accounts.

Are your records accurate and reliable?

Ensure that:

- All income is recorded and banked promptly.
- All recorded expenses are authorised and valid.
- All recorded debts are recoverable.
- All your liabilities are identified and recorded when they are incurred.

Do your records give you adequate information for taking management decisions?

You should know!

Could your accounting systems be improved?

Does the structure of your business minimise audit work? Auditors have to report on each active company as a separate legal entity. It is normally more effective and cheaper to structure an expanding business as a company with branches or divisions rather than as a group of separate companies.

Chart of Accounts

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

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

- Will your business have stock to account for? If so, will it be purchased in finished form or will there be production costs?
- Are fixed assets a significant portion of your business?
Keeping Records

- Will you sell only one product or service or will there be several types of business?
- Will you have accounts receivable from customers which you will have to track?
- Are you going to sell in only one location or will you do business in several places?
- Are the products you sell subject to value added tax?
- Do you need to track costs by department?
- What type of government controls or regulatory reporting are you subject to?

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

**Cash or accrual accounting**

One of the decisions to be made as you start a business is whether to keep your records on a cash or accrual basis of accounting. The cash basis of accounting has the advantage of simplicity and almost everyone understands it. Under the cash basis of accounting, you record sales when you receive the money and account for expenses when you pay the bills. The increase in the money in ‘the cigar box’ at the end of the month, is how much you have made.

Unfortunately, as we all know, the business world is not always so easy. Sales are made to customers and you sometimes must extend credit. Your business will incur liabilities which are due even though you may not have received the invoice or have the cash available to pay them.

Most users of financial statements such as bankers and investors are used to accrual-basis statements and expect to see them. Once you become familiar with them, they provide a much better measuring device for your business operations than cash-basis statements.

Whether you use the cash or accrual basis, it is possible to keep books for income tax purposes on a different basis than for financial statements. It may be more advantageous (reduced tax for example) for you to do so.

**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 external accountants you may engage.
## SAMPLE PROFIT AND LOSS

**PROFIT & LOSS FORECAST**

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Computer accounting systems for first time users

Introduction
A business user choosing a computer system for the first time has to give detailed consideration not only to the purchase of the hardware and software but to the installation of the system and the training of staff. The proprietor of the business will need to make a solid commitment in both time and money in order to reap the benefits.

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

Software
Accounting software, like hardware, is now very powerful and comparatively inexpensive. Integrated software includes Sales, Purchase and Nominal Ledgers with Sales/Purchase Order Processing and Stock Control in a single suite of programs. Prices range from £99 to £600 for this type of program running in ‘single user’ mode (some web enabled versions are even free). Networked versions for multi-user use are generally more expensive.

We have reviewed most of the well-known names in this sector of the market and find, as with many things in life, you tend to get what you pay for.

Modular systems are made up of individual programs for each of the above functions, each of which is more powerful and flexible than the integrated systems. These are put together to form a total system for the larger business, usually on a network of a number of PC’s.

These systems are for businesses with turnovers of, say, £1 million upwards.

Microsoft and their ‘Office’ software package and Windows operating system is practically universally used on PC’s nowadays. Accordingly, most other software producers have now produced Windows versions of their own packages. Microsoft ‘Office’ includes word processing, spreadsheet and database software and will be suitable for most business environments.

New technology, notably e-mail and the Internet have had a great deal of publicity in recent times. There can be no doubt that development in these areas will significantly impact on our lives, both socially and commercially. Getting on to the Internet is a relatively simple and inexpensive process. Developing and maintaining a website can be as complex and expensive as you care to make it.

A great deal of careful thought needs to be given before significant time and expense is incurred as to how this aspect of technology be best implemented to suit your business. There are many options to consider in how this should be addressed.

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

Planning and Implementation
Planning and implementation must cover the layout of your accounts, control over the information going in, and verification of the information coming out of the system.

It will also be necessary to produce the accounting data for entering the opening balances.

Where advanced management information is involved, such as profit and loss by departments, more detailed planning is required. Development of a system can only take place at the pace at which staff are able to increase
their own skills. The following phases of development may be appropriate for a new start-up system:

- Recording of prime entries (cash received and paid; sales and purchase invoices)
- Bank reconciliations and VAT returns
- Monthly adjustments (e.g. depreciation and stock change) producing monthly management accounts
- Sales invoicing routines
- Advanced management information e.g. detailed analyses of sales and departmental costs
- Sales and purchase order processing with stock control

Even at the first stage the system will produce aged debtors and creditors on a regular basis to enable the business to improve its cash flow.

Training and support
Training staff who are to use the computer is essential both to get off to a sound start and to make progress.

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

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

Installation of accounting systems
- Consult your accountant! Grants may be available for training.
- Decide on starting date, consider trial period.
- Set up nominal ledger accounts, balance sheet and profit and loss layout.
- VAT? Accrued or cash accounting.
- Are departments required for sub analyses?
- Use a dummy company for practice (multi-company systems only).
- Obtain starting trial balance.
- Obtain starting sales and purchase ledger balances.
- Enter Trial trial balance by journal entry.
- Enter sales/purchase account code, names, addresses, etc.
- Enter sales and purchase ledger balances by posting directly to sales/purchase control account.

Useful tips
- Consider the need to keep manual records for at least three months and a cash book for a full year.
- Reconcile bank statements with cash book and computerised bank control account.
- Consider direct production of sales invoices.
- Keep a backup disk for each of the five weekdays. Keep a weekending backup off the premises.
The implications of the recent burgeoning of e-commerce are clear for all businesses, large and small - develop and implement an e-commerce strategy soon, or risk being left behind in the ‘new industrial revolution’.

The online marketplace is developing so rapidly that an internet presence is increasingly becoming the norm in the UK, and businesses that are not online could be facing a serious competitive disadvantage.

E-commerce can be divided into two types:

1. Business-to-business
2. Business-to-customer/client

The first is already reasonably well developed in the UK, and the second is fast catching up.

Websites

Perhaps the most important part of your e-commerce strategy will be your website, which can be designed to achieve a number of objectives:

- Enhance the reputation of your business
- Improve brand/firm awareness
- Stay abreast-ahead of the competition
- Extend your marketing programme to take advantage of the new marketplace
- Provide key customer services online
- Provide up-to-the-minute news and information on your products/services
- Enable customers/clients to make pre-purchase decisions
- Sell your products/services online
- Provide post-sales support online
- Prospect for new customers/clients

Many of these objectives can bring substantial savings in staff and administration costs, and better quality and more personalised services to customers and clients.

There are also other particular benefits for a new business from being online:

- An opportunity to reach a wider geographical area
- Being ‘open for business’ 24 hours a day, seven days a week
- The use of personalised services for focused marketing
- The ability to reach a large target market at relatively low cost

However, it is important to remember that, as with any other marketing activity, the quantity and quality of your returns depends upon the quantity and quality of your investment.

It is often said that the internet is a level playing field that enables smaller businesses to take on the big players on equal terms, but this statement needs qualifying. While it is true that large and small enterprises alike share the same media and have access to the same technologies, sophisticated and large-scale internet marketing calls for substantial resources that may be beyond the scope of start up and small to medium sized businesses. For example,
in areas such as internet advertising, smaller enterprises will not have the resources to match the sophistication and scale of campaigns launched by larger businesses. Furthermore, it is a mistake to think small enterprises can conduct large-scale internet marketing ‘on the cheap’. The idea that a small business can ‘disguise’ itself as a large enterprise through clever website design is frankly a fallacy. Internet users are becoming increasingly discerning, and are more and more able to ‘see through the pages’ and recognise what lies behind them.

As far as the end user is concerned, it is not the size of the enterprise that matters but the quality of service they deliver. A small business is just as capable of delivering good quality service as a large business is of delivering poor quality service. The point is to be honest in your presentation, and not to try to use new technology to hoodwink the end user. Integrity matters on the internet, and ‘cowboy’ operations can be treated with ruthless disdain.

Getting started
There is a veritable wealth of material online to help businesses develop e-commerce strategies. Just type ‘e-commerce’ into a search engine and see what comes up!

Benefits will be mainly a business that you manage - instead of a business that manages you!
Many business owners find that continual late payments - and the ability of large customers to decide to pay as and when they want to - can contribute to negative cash flow. This section focuses on ways to improve your debt collections and, hopefully, to ease your cash flow difficulties.

**Choose the right customers**

Be selective about the organisations with which you intend to do business. This can be difficult if you are dependent on a few large customers or if your customer base is dwindling, but once your business has reached a manageable level of stability it is a good idea to research all prospective clients. You should:

- Obtain credit references on potential customers
- Avoid doing business with companies with poor credit ratings
- Ensure that the prospective customer knows your payment terms from the outset

**Implement a debt collection policy**

- Establish a policy to ensure that you keep control of debt collection.
- Develop a set routine, such as the one outlined below. This will prevent the build-up of a pile of unsorted, unorganised bad debts.

**A typical debt collection policy**

If your terms state that payment must be received 30 days after invoicing, you should:

- Invoice at the earliest opportunity, stating the payment terms clearly on the invoice.
- 15 days after invoicing, telephone the customer. Thank them for their business and ask if they are satisfied with your work or product.
- If no payment has been received after 31 days, send a reminder and call the customer to inform them that you are initiating collection efforts.
- Telephone the customer every two or three days. Bad debtors rely on the negligence of their creditors. Continual calling will let them know you are aware of the debt and show them that you are willing to take action.
- If there is a query or payment problem, arrange a new settlement date by telephone. Confirm this date in writing and state clearly that if payment is not made by this date, the matter will be referred to either:
  - a debt collection agency.
  - a firm of solicitors, or
  - the county court small claims department.

If the debt is still due after this, keep your word and take action.

**Make use of payment plans**

Payment plans become necessary when the customer cannot pay the entire amount due in one instalment. To avoid future misunderstanding, commit an agreed plan to paper and ensure that both parties sign the document.

**Pursue frequently late-paying customers**

Let customers know that you can no longer tolerate late payments. Sometimes the interests of customer service and debt collection can clash, but it is important to convey, politely but firmly, that bad debts are unacceptable. Explain to clients that although you will willingly discuss matters to the full, further delays in payment will not be tolerated.

**Use a debt collection agency**

If the worst comes to the worst, do not hesitate to use a debt collection agency to enforce payment. If a debt is more than 90 days late, hand it over to an agency. Not only will this let the customer know that you are serious about the late payment, but it will allow you to spend time more productively on those accounts which are less overdue.
A common area of confusion and concern that affects many small and start up businesses is over the question of buying assets. Whether it is IT, telecoms or general office equipment, many business people are unsure as to the best approach.

The decision to buy, hire purchase, or lease an asset will generally depend on the financing available to your business.

There are different treatments for tax and accounting purposes, depending on the type of finance contract entered into, and these will need to be considered together with the VAT treatment.

**Buy**

This section covers outright purchase for cash or by bank loan, etc.

**Accounting treatment**

The asset is capitalised in the balance sheet and an annual charge for depreciation is deducted as an expense in the profit and loss account, which in turn reduces the value of the asset in the balance sheet.

The annual depreciation charge is calculated in accordance with accounting standards, based on the useful economic life of the asset and the residual value.

**Tax treatment**

The actual charge for depreciation is not allowed for tax purposes, as this is replaced by capital allowances, which is HM Revenue & Customs deduction regime for allowing capital expenditure against chargeable profits. The first £50,000 of expenditure each year on plant and equipment, excluding cars, qualifies for a 100% capital allowance deduction. Expenditure in excess of £50,000 enters either the 10% pool or the 20% pool, attracting a writing down allowance (WDA) at the appropriate rate.

A temporary first year allowance of 40% is available for expenditure on plant and machinery that exceeds the annual investment limit incurred in the year commencing on 1 April 2009 (corporation tax) or 6 April 2009 (income tax). This allowance applies to expenditure which would otherwise have been allocated to the main 20% pool but excluding cars and assets for leasing.

Any business that invests in energy-saving or water-efficient technology is entitled to claim a 100% first year allowance. Cars with CO2 emissions of up to 110 g/km also qualify for a 100% first year allowance. Cars with CO2 emissions of more than 110 g/km and up to 160 k/km will be allocated to the main pool and attract the 20% writing down allowance. Cars with CO2 emissions exceeding 160 g/km will enter the special rate pool and attract WDA at 10%.

**VAT**

Unless the asset is a car, the VAT shown on the supplier’s invoice will generally be recoverable by the purchaser, if he or she is registered. Buying at the beginning of a VAT period will entail a wait of three months or more to recover the tax. VAT on cars is recoverable only in very rare circumstances.

**Hire purchase**

A HP agreement usually includes an option to purchase at the end of an initial period. Payment of this nominal fee transfers title of the asset and brings the legal agreement to an end.

**Accounting treatment**

The asset is treated as if it had been purchased. It is, therefore, capitalised in the balance sheet and depreciation is provided on an annual basis.

The obligation to pay future instalments is recorded as a liability in the balance sheet.
The payments are apportioned between a finance charge and a reduction of the outstanding liability.

The total finance charge should be allocated to accounting periods during the HP term and is shown as an expense in the profit and loss account.

**Tax treatment**
Depreciation is not allowed for tax purposes, but capital allowances are available. Investments in plant and equipment (not usually cars) by small businesses attract a first year allowance of 50%. Similar investments by medium-sized businesses attract a first year allowance of 40%. After the first year, relief is given by a writing down allowance of 25% on the tax written down value. Any business that invests in energy-saving or water-efficient technology is entitled to claim a 100% first year allowance.

Where there is some private use of the asset, a proportion of the allowance is disallowed.

Where the asset is a car costing over £12,000, the annual allowance is restricted to a maximum of £3,000. Assets with especially long or short lives are sometimes treated differently.

The finance charge in the accounts is normally allowed against tax.

**VAT**
VAT charged by the finance company will be payable with the initial instalment. There will be a delay of up to four months in recovering this from HM Revenue & Customs. In the case of a car, most businesses will be unable to recover any of the VAT.

**Finance leases**
A finance lease typically has a primary period for a fixed period at full cost, followed by a secondary period, usually of an indefinite length, at a very low cost.

**Accounting treatment**
The asset is treated as if it had been purchased. It is therefore capitalised in the balance sheet and depreciation is provided on an annual basis.

The obligation to pay future rentals is recorded as a liability in the balance sheet.

The rents payable are apportioned between a finance charge and a reduction of the outstanding liability.

The total finance charge should be allocated to accounting periods during the primary lease term and is shown as an expense in the profit and loss account.

**Tax treatment**
The tax treatment under Hire Purchase agreement is broadly the same as having bought it.

Where accounts have not been prepared in accordance with accounting standards, for tax purposes the rentals are deductible in computing profits under the accrual concept. The rentals are, therefore, allocated over the period of the lease.

Where the asset is a car with an acquisition cost of £12,000 or over, there is a restriction on the amount of rental payments allowed for tax purposes.

Capital allowances are not available.
VAT
VAT charged by the finance company will be payable with the initial instalment and each subsequent rental. There will be a delay of up to four months in recovering this from HM Revenue & Customs. In the case of a car, most businesses will be able to recover 50% of the VAT.

Operating leases
An operating lease is where an asset is rented for a period, not necessarily fixed, and returned to the owner at the end of the period. Contract hire is a typical form of operating lease.

Accounting treatment
The asset is not capitalised; the rental payments are charged on an acceptable basis over the lease term to the profit and loss account.

Tax treatment
The accounting treatment is an acceptable treatment for tax purposes, where the accounting standard has been applied. No adjustments to profits, therefore, need be made. Where an asset is a car with an acquisition cost of £12,000 or over, there is a restriction on the amount of rental payments allowed for tax purposes. Capital allowances are not available.

VAT
Each rental or instalment will have VAT added so that the VAT cost is spread throughout the period of the agreement.

Where the asset is a car, only 50% of the VAT on the leasing charges can be reclaimed. If identified separately, the VAT on any maintenance element of the contract can be reclaimed in full. The disposal proceeds of leased cars will be VAT inclusive.

You need to consider:
- The return you are obtaining from your investment in the business
- Whether you will be able to meet your liabilities as and when they are due
- The extent to which you could attract or increase outside finance
- Your fast and slow moving stock lines
- The levels of gross profit from your product lines

The extent to which additional working capital will be required to finance an expansion in trade

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

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

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

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

- Public Liability – this will protect you from any liabilities to a third party (other than your employees) for bodily injury or loss/damage to their property that may occur during the normal operation of your business.
- Employers’ Liability – if you are a limited company or employ anyone outside your immediate family, you are required by law to purchase employers’ liability insurance. This insurance offers you protection for any liability arising from injury or illness sustained by employees whilst they are working for you.
- Products Liability – this will protect you from any liabilities to a third party (other than your employees) for bodily injury or damage to their property that may occur from the products you have sold or supplied.
- Professional Indemnity – this cover is usually purchased by ‘professionals’ such as IT consultants, surveyors, accountants, solicitors etc. This cover will protect your legal liabilities to third parties arising from your or your employees’ professional negligence/wrongful advice.

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

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

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

**Motor trade (products, sales and servicing indemnity)**

Products, Sales and Servicing Indemnity (PSSI) is an extension of cover that is usually provided with
employers’ liability and public liability insurance for the motor trade.

- Products liability/Sales indemnity will cover you in the event that you cause injury or damage to
  third parties.
- Servicing indemnity will cover you in the event that you are pursued for injury or damage caused by
defective workmanship. For example, if you are a car mechanic and forget to re-attach the brakes
properly and the client had an accident as a result of the brakes failing.

**Business interruption**

This covers loss of income/revenue or additional expenditure incurred following a disruption to the operation of
your business. Business interruption usually mirrors your property policy and covers the same perils however, it is
possible to add additional perils to your business interruption cover such as food poisoning or failure of utilities.
Your broker will be able to provide you with advice regarding this cover and the possible extensions.

**Fidelity guarantee**

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

**Directors & officers liability**

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

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

Although this is a relatively new cover in the insurance market, it is strongly
recommended for limited companies and you should seek the advice of
your broker for quotations.

**Key person / shareholder / partnership protection**

**Keyperson protection**

This provides a company with a valuable safety net should serious illness, disability or death curtail the contribution
certain ‘key’ people could make to its stability, profitability and success.
Identifying a key person
These are the people whose special knowledge, skills or enterprise are vital to the continuing survival of a business - people who are difficult to replace.

Remember, key people come in many guises. They aren't always the Managing Director or other high, profile senior managers. Consider other key functions that are necessary to the company’s business when talking key person insurance with your clients.

Partnership protection

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

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

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

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

Raising the finance to buy a partner’s interest may involve the sale of assets or finding someone who can afford to buy-in to the partnership. Finding a suitable replacement and raising the money can be difficult and time consuming. If unsuccessful, the partnership may even have to be dissolved. It is clear that partners need to retain continuity, stability and control of the business whatever the eventuality. This can be achieved by making adequate legal and financial provision.

Shareholder protection
Like partners, shareholder’s shares may pass to an heir who does not understand the company’s business or whose interests conflict with those of the other shareholders. Alternatively, the shareholder’s interest may need to be converted into cash to cover Inheritance Tax liabilities or provide for dependants.

Maintaining control and stability of the company during this often turbulent time is key to its continued success. By taking the appropriate legal and financial steps shareholders can be confident that the future holds no surprises.

Insurance Summary
Insurance is like any other product that you purchase. Before buying cover you must ensure that your broker has been approved by the Financial Services Authority and that the insurance company that is being quoted is financially stable. Your broker will have access to this information and will be happy to provide you with details. This is just a brief outline of the basic insurance you may require. Each business is different with individual requirements and, in view of the ever changing legislation and insurance markets, you should always consult with a qualified insurance broker for advice.
Pension Simplification Legislation

The Government recently announced major changes to simplify pensions legislation, which are aimed at encouraging pensions provision. Among the changes that apply from April 2006, are the following:

- A Lifetime Allowance [Fund] limit of £1.5 million that increases each year to £1.8 million by 2010.
- An annual Contribution Allowance of £215,000 that increases steadily to £255,000 by 2010.
- Any tax-free cash benefits limited to 25% of the fund.
- The minimum age normal benefits can be taken is to be increased to age 55 from 2010.
- No return of Capital on Death after age 75

However from an employer’s point of view:

Stakeholder Pensions

Since October 2001, all employers with more than four employees have been required to nominate a stakeholder pension arrangement to which their employees can contribute. The following groups of employees are exempt from this requirement:

Employees who would normally qualify to become members of an occupational pension scheme not more than 12 months after starting work, or on attaining age 18;

Employees who qualify for membership of a group personal pension with no exit charges to which the employer contributes at least 3% of basic pay;

Employees who earn less than the lower earnings limit, currently £110 (2009/10 - £110) per week in any week in the last three months;

Employees who are within five years of the normal pension age under an occupational pension scheme but could otherwise join;

Employees who have worked for the employer for less than 3 months;

Employees who have been offered membership of an occupational pension scheme and have declined to join or who have left the scheme and are now unable to rejoin

OPRA can fine employers who do not comply.

If after 8 October 2001, an employer employs more than four employees for the first time, it has three months in which to designate a Stakeholder scheme.
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.

When enlisting the expertise of an accountant and solicitor you want a specialist suited to meet your specific needs. You want a specialist who will listen to you. More importantly, you need some you can and will listen to as they devise strategies to help you succeed.
At some stage in the development of your business, you may feel it is the right time to take on additional help by employing someone. The mere action, from going from just you to you and an employee suddenly involves you in a myriad of legislation, compliance, commitment and liability.

**Employee protection legislation, payroll taxes, legal and insurance issues need to be considered very carefully.**

**Employee legislation**
Legislation protecting and controlling the employment of individuals has been considerable over the last few years. It is particularly important that however few employees you intend to take on, you take appropriate advice to ensure that you comply with all legislation particularly with regard to:

- The recruitment process
- Terms and conditions of employment
- Discrimination issues relating to age, sex, disability

Very quickly, employees can become one of your largest investments and you should therefore pay ample attention to issues such as:

- People management/development and appraisals
- Internet use policy
- Reducing high staff turnover
- Induction processes
- Training

One area that it is essential that you comply with properly from the outset is that of payroll taxes.

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 H M Revenue & Customs.

**Helpful publications**
H M Revenue & Customs publish various booklets relating to how PAYE is operated and the legislation that you have to comply with. Not only do you collect and remit PAYE to the Collector of Taxes on behalf of H M Revenue & Customs, you also operate the sick pay scheme and maternity pay scheme. You should run the PAYE scheme in accordance with the legislation and should you fail to comply then H M Revenue & Customs will look to you for the tax or NIC you failed to deduct. This can be costly if you are unable to recover the tax and NIC from the employee.

**Do you have employees?**
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 H M Revenue & Customs has placed emphasis on reclassifying individuals claiming to be self-employed and has issued leaflet IRS6 entitled ‘Tax: employed or self-employed’. This booklet sets out the questions that should be answered to ascertain the correct employment status. If you have treated someone as self-employed and subsequently, after a routine visit from H M Revenue & Customs, it is clear that they were employees, then the tax and NIC which should have been paid will be assessed on you. Therefore it is important to ensure, when using the services of self-employed people, that they are in fact self-employed.

If doubt exists as to the status of an individual, the situation can be clarified with H M Revenue & Customs.
The operation of a PAYE scheme.

Upon registration H M Revenue & Customs will send to you guidelines on operating PAYE, National Insurance, Statutory Sick Pay and Statutory Maternity Pay (employer’s pack).

Included will be a number of forms with which to operate the PAYE and NIC system. You should familiarise yourself with and have supplies of these forms, which are as follows:-

<table>
<thead>
<tr>
<th>Form</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>P11</td>
<td>Deduction working sheet</td>
</tr>
<tr>
<td>P46</td>
<td>Notification to the Inland Revenue where no code has been notified to the employer and application for coding</td>
</tr>
<tr>
<td>P46(Car)</td>
<td>Notification of a car provided for the private use of an employee or a director</td>
</tr>
<tr>
<td>P45</td>
<td>Details of employee leaving</td>
</tr>
<tr>
<td>P14/P60</td>
<td>End of year return and employers certificate</td>
</tr>
<tr>
<td>P35</td>
<td>Employer’s annual statement</td>
</tr>
<tr>
<td>P38A</td>
<td>Employer’s supplementary return</td>
</tr>
<tr>
<td>P11D</td>
<td>Expenses and benefits</td>
</tr>
<tr>
<td>P9D</td>
<td>Expenses payments and income from which tax cannot be deducted.</td>
</tr>
</tbody>
</table>

In order to calculate the amount of tax and national insurance due by an employee, H M 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 tax and national insurance should be paid to H M Revenue & Customs by the 19th of the month following that in which the salaries were paid.

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, H M 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 in Inland Revenue leaflets IR132 and IR133. H M Revenue & Customs will still require form P11D to be submitted annually in addition to the P46 (car) forms.
Payroll Software

The use of the tables described above can be very time consuming and prone to error so it is recommended that either payroll software or a payroll bureau service is used if you have employees. There are mandatory online filing regulations in place in some circumstances and this requirement is likely to increase in the future. It is also more convenient to file P45 forms for leavers online and to obtain tax code changes direct from HMRC.

P46 car is available here: - http://www.hmrc.gov.uk/forms/p46car.pdf
P9d is available here: - http://www.hmrc.gov.uk/forms/p9d.pdf
Details on completing P35 are available here: - http://www.hmrc.gov.uk/paye/payroll/year-end/annual-return.htm
P45 forms are not available for download

You can register online and obtain more details at the HMRC web site:- http://www.hmrc.gov.uk/paye/file-or-pay/fileonline/register.htm

Eventually you will have to deal with income or corporation taxes. The taxation legislation is extensive and can be confusing for an individual starting a business. This chapter does not cover all the tax ramifications of a new business, nor does it detail all the expenses you can claim for, nor does it give details of allowances available on the purchase of some capital allowances. A Chartered Accountant should be consulted when you are dealing with the taxation affairs of the business. The payment of taxation has a direct impact on your cash flow.

Choice of year end

Which accounting year should I choose?
If you expect profits to rise steadily year by year, in the case of sole traders/partnerships, an accounting date early in the tax year, for instance 30 April, might be best in the short term, because this will defer the payment of tax on your profit. However, it is important to consider what will happen when you retire. Any accounting date other than 31 March will cause a bunching of your tax liabilities because all your profit that has not been assessed prior to your retirement will be assessed for your final year. There are a number of ways to mitigate the effect of this. You could plan to retire on or shortly after the accounting date, and allow ‘overlap relief’ to reduce the burden. You could build up a reserve to meet the liability, or use the higher profit to permit an abnormally large pension contribution.

On the other hand, if you expect to make losses in your early years, an accounting date late in the tax year, for instance, 31 March, will ensure that you get tax relief for those losses as quickly as possible. You would then not be faced with the bunching problem on retirement referred to above.

It will also be necessary to bear in mind the seasonality of your business. As part of the profit for your first period of trading could be taxed twice, it would be unfortunate if a poor choice of accounting date were to accelerate the tax on the profit of your first busy period. In these circumstances it might be preferable to run your first accounts to a date just short of your peak period.
As ever, it is important not to overlook commercial considerations. Your bankers might want to see as healthy a profit as you can manage and this desire could conflict with tax planning. A solution would be to choose a tax efficient tax accounting date, and keep the bank happy with quarterly management accounts.

**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 year.

### Financial Year to 31 March 2011

<table>
<thead>
<tr>
<th>Financial year to</th>
<th>31 March 2011</th>
<th>31 March 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>£300,000</td>
<td>£300,000</td>
</tr>
<tr>
<td></td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Next</td>
<td>£1,200,000</td>
<td>£1,200,000</td>
</tr>
<tr>
<td></td>
<td>29.75%</td>
<td>29.75%</td>
</tr>
<tr>
<td>Over</td>
<td>£1,500,000</td>
<td>£1,500,000</td>
</tr>
<tr>
<td></td>
<td>28%</td>
<td>28%</td>
</tr>
</tbody>
</table>

There are special rules to calculate the tax rates applicable for profits falling between the small companies and normal rates, and are such as to ensure that the tax charge rises progressively. Corporation Tax Pay and File was brought into effect for accounting periods ending after 30 September 1993 (for accounting periods ending after 30 June 1999, it became 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.

**Sole traders/partnerships**

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

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>Rate</th>
<th>2009/10</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>*See below</td>
<td>10%</td>
<td>*See below</td>
<td>10%</td>
</tr>
<tr>
<td>Basic- next</td>
<td>£37,400</td>
<td>20%</td>
<td>£34,800</td>
<td>20%</td>
</tr>
<tr>
<td>Higher-over</td>
<td>£37,400</td>
<td>40%</td>
<td>£37,400</td>
<td>40%</td>
</tr>
<tr>
<td>Additional-over</td>
<td>£150,000</td>
<td>50%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*10% starting rate for savings income up to £2,440 (2009/10-£2,440). Not applicable if taxable non-savings income exceeds £2,440.*
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 rate of £2.40 (2010/11). Class 4 NI is payable by the self-employed on profits.

Class 4 contributions are levied at 8% on profits between £5,715 and £43,875 (max) for both 2009/10 and 2010/11. There is a further 1% charge on profits in excess of the upper limit of £43,875.

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 the 31 January in the year of assessment, the other half by the 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 the Inland Revenue if your final liability is lower than the amounts paid on account.

However – a word of warning when you start up a business.....depending on accounting dates chosen and when you start to trade, you may not pay any tax on profits for some considerable time. As an illustration purpose assume you start to trade on 1 May 2010 and first accounts run to 31 March 2011. You will not pay any tax in July 2010 or January 2011 – nor will you pay any tax in July 2011- so the first tax liability will arise in January 2012. This will be 100% of the tax liability for the period to 31 March 2011 – but in addition you will also have to pay 50% of that sum “on account” for the following tax year, with a further 50% in July 2012. You are then however in the six monthly “cycle”.

Tax Credits

Whilst not specifically related to "tax" despite the name, we will mention Tax Credits at this stage. There are two elements - Child Tax Credit and Working Tax Credit.

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

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

- get paid for their work
- expect to go on working for at least 4 weeks
and who are either
- aged 16 or over and responsible for at least one child, and usually working at least 16 hours a week, or
- aged 16 or over and disabled, and usually working at least 16 hours a week, or
- aged 50 or over and are starting work after receiving certain benefits for at least 6 months and usually working at least 16 hours a week, or
- aged 25 or over and usually working at least 30 hours a week.

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

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

When starting up it may be that your income precluded you from claiming tax credits in the past. However, income may drop substantially or a "loss" for both income tax and tax credits purposes may be able to be created by claiming allowances on equipment etc. Claims can only be backdated for three months from the date of application so it is advisable to contact the Tax Credits office as soon as possible to make a claim. You may not be immediately eligible based on a provisional calculation which takes into account your income in a prior tax year, but you may become entitled to it at some stage. Telephone the Tax Credits helpline on 0845 300 3900.

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

**Tax and the company car**
The system for taxing those who use company cars has remained fundamentally unchanged for some years, save for stepped changes in the emissions thresholds. The basis of the charge is to tax a figure calculated by multiplying the car’s list price by an emission-based percentage, with a 3% surcharge on diesel powered cars.

The taxable value of the benefit continues to be up to a maximum of 35% of the list price of the car when first registered. The list price includes car tax (if applicable), VAT and delivery charges, and is subject to an upper limit of £80,000.

Cars emitting CO2 at or below a specified level are taxed on 15% of the list price. This is the usual minimum charge and will apply up to an emission level of 144g/km.

Cars running solely on diesel fuel are subject to a 3% supplement, unless the car meets the Euro IV standard. Special rules apply to cars running on electricity, electricity and petrol, gas or petrol and gas, which are generally seen as more environmentally friendly.

Cars with higher levels of CO2 emission are taxed on a graduated scale rising to a maximum (for both petrol and diesel) of 35% of the car’s price. The detailed figures are shown below. These figures apply to all company cars, including second cars.

**CO2 emission information**
For all cars first registered from at least November 2000, the definitive CO2 emissions figure for tax purposes will be recorded on the Vehicle Registration Document (V5). Under an agreement with HM Revenue & Customs, the Society of Motor Manufacturers and Traders (SMMT) is providing a CO2 emissions enquiry service on their website at [www.smmt.co.uk](http://www.smmt.co.uk) for cars first registered from January 1998.

**Tax payable**
These standard charges are subject to income tax at basic or higher rate (depending on the employee’s rate of pay). The tax is usually collected under the PAYE system by appropriate adjustment of the employee’s tax code.

For the benefit to be attractive, the employee must pay less in extra tax than it would cost him to run his own car out of his taxed income. These are examples of the 2009/10 tax costs to an employee of a company car:
Business use of an employee’s own car

It is quite normal practice for employees to be reimbursed at a reasonable mileage rate for business use of their own cars.

A statutory system of tax and national insurance free mileage rates applies for business journeys in employees’ own vehicles, as follows:

<table>
<thead>
<tr>
<th>Cars and vans</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>On the first 10,000 miles in the tax year</td>
<td>40p per mile</td>
</tr>
<tr>
<td>On each additional mile above this</td>
<td>25p per mile</td>
</tr>
<tr>
<td>Motor cycles</td>
<td>24p per mile</td>
</tr>
<tr>
<td>Bicycles</td>
<td>20p per mile</td>
</tr>
</tbody>
</table>

It is no longer possible to make a claim for tax relief based on actual receipted bills, nor claim capital allowances or interest on loans related to car purchases.

Unless the employee is reimbursed at a rate higher than the statutory mileage rate, the payments do not need to be reported on a P11D.

Tax saving check list

- Keep adequate records of business mileage.
- Always check your tax code to see that the correct benefit is being applied.
- Sole traders and partners should consider the potential tax advantages of providing their spouse with a company car.

If you have low private mileage, you may be better off if you pay for all your own private fuel.

- If you have high business mileage, it may be better to use your own car and claim ‘mileage’ from your employer.
- Encourage your employer to apply for a P11D dispensation.

If you are on the borderline of ‘lower paid’, think about setting up a contribution for the use of the car, to keep on the right side of £8,500.

- Tax-free parking is a must!
### Basic Rate Liability

<table>
<thead>
<tr>
<th>List Price</th>
<th>CO2 emission g/km</th>
<th>Tax Rate 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Petrol</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Car £</td>
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### Higher Rate Liability

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### Tax free benefits

- **Car Parking**
  - The provision of a car parking space at or near the employee's place of work is not an assessable benefit.

- **Pool Cars**
  - There is no tax for using a pool car. This is one where private use is merely incidental to the business use, and it is not normally used by one employee to the exclusion of all others.

- **Please note**: A pool car must not normally be kept overnight at or near an employee’s home.

- **‘Lower Paid’ Employees**
  - The provision of a car for an employee (NOT a director) who is paid at a rate below £8,500 per year (including the value of benefits) does NOT attract any charge to income tax. Nor is there any charge on fuel for private use provided to such employees.

### Special consideration for sole traders

If your spouse is employed in your business (but not as a partner), it can be very tax efficient to provide them with a car, as long as they earn well below £8,500. The use of the car can be tax-free in their hands, and the business will get full tax relief on all the expenses connected with the car, provided you can demonstrate the car is necessary for business purposes.
Who is a director?
A person can be a director without bearing the title. Thus, a shadow director is defined as ‘a person in accordance with whose directions or instructions the directors of the company are accustomed to act.’ In the case of many companies limited by guarantee, the directors may be known as ‘council members’ or ‘governors’.

The Companies Act makes no distinction between executive and non-executive directors. Non-executive directors are directors for all purposes of the legislation, and bear all the relevant responsibilities.

Private companies need only one director, but in practice most have at least two. Companies must maintain a register of directors and notify the Registrar of Companies of any changes within 14 days. The relevant forms are:

Companies Act 2006
The final stages of the 2006 Companies Act are due to be implemented on the 1st October 2009. Full details can be found at www.westbury.co.uk/content/companies_act/key_changes.html

Since the Companies Act does not provide a comprehensive statement of directors’ general duties and responsibilities, these have developed by way of comparison with other legal relationships, as follows:

Fiduciary duty
Each director must act in accordance with what he or she believes to be the best interests of the company. Directors must not place themselves in a position in which there is a conflict between their duties to the company and their personal interests. For example, in a take-over bid, the fact that the directors as individuals might hold between them a majority of the voting shares does not mean they can follow their own individual wishes.

Care and skill
The standard of care expected is, ‘such care as an ordinary man might be expected to take on his own behalf’. The degree of skill expected is ‘such a degree of skill as may reasonably be expected from a person with (the particular director’s) knowledge and experience’.

Ratification
In certain circumstances, it is possible for the shareholders to ratify a transaction that would otherwise be in breach of duty.

Statutory duties
There are numerous statutory duties that apply to directors, many linked to defaults by the company. If a private company offers shares to the public, the company ‘and any officer of the company in default’, are guilty.

However, there are some duties, whose breach is a criminal offence, that apply only to directors. One of the most important is the duty not to deal in securities when in possession of unpublished price sensitive information (‘insider dealing’).

Some legislative provisions impose civil liability upon a director. For example, a director who signs a cheque that does not have the company’s ‘name mentioned in legible characters’ is personally liable on the cheque.
Accounts and dealing
Directors’ duties in respect of accounts are stringent and comprehensive. Directors are responsible for preparing a profit and loss account and a balance sheet, ensuring that proper accounting records are kept, and taking all possible steps to ensure that the accounts show a true and fair view. This is now reflected in the ‘Statement of Directors’ Responsibilities’, which has to be attached to the statutory financial statements.

Directors are also under a statutory duty to supply auditors with necessary information and explanations. This is the reason for requesting ‘letters of representation’. Criminal liability can follow if directors ‘knowingly or recklessly’ make a ‘misleading, false or deceptive statement’ to the auditors.

Duties to whom
The duties of directors under the general law are owed to the company and not to its shareholders, so it is the company, or its liquidator, that can sue. Creditors can, in the case of a company in liquidation, apply to the court for an order compelling the directors to repay such sum as the court considers just in respect of the directors’ ‘misfeasance or breach of trust.’

A director who is knowingly a party to fraudulent trading may also be personally liable to creditors.

However, although directors have a statutory duty to have regard to the interests of employees, it is doubtful whether employees could sue the directors personally, because the director’s duty is to the company.

Wrongful trading
Wrongful trading may be broadly defined as a failure by a director or shadow director of a company to take every step that he or she should have taken to minimise loss to creditors once he or she knew, or ought to have known, that the company was unlikely to avoid insolvent liquidation. The possible penalties for wrongful trading are:

- Liability to make a contribution to the assets of the company in a sum to be decided by the court.
- Disqualification from being concerned in the management of a company.
- When a company goes into insolvent liquidation, it is necessary to make a judgement:

Whether the directors took such steps to monitor their company’s affairs as would be taken by a reasonably prudent businessperson. If they failed to do so, whether they would have realised the company’s insolvency earlier if they had taken such steps.

It is therefore essential that the board of directors ensure that appropriate steps are taken to monitor the company’s financial position on a regular basis.

Tests of insolvency
There are a number of ways to test for insolvency. You should consider the following:

- Is the company paying its liabilities as they fall due or shortly thereafter, and will it continue to do so in the foreseeable future?
- Do the aggregate liabilities, including contingent or prospective liabilities, exceed the total value of the company’s assets?
- If the company were put into liquidation now, would the realisations from the disposal of the assets be sufficient to pay all liabilities and the costs of the liquidation in full?

Fraudulent trading
Honest directors should not find themselves guilty of fraudulent trading. Nevertheless, if a company has already incurred liabilities that it failed to pay when they fell due or shortly thereafter, the board should consider the position carefully and place on record the factors that led them to conclude that any further liabilities incurred would be paid at the proper time before allowing the company to obtain any additional credit.
Disqualification

Grounds
A disqualification order may be made against a director on the grounds of:

- Responsibility for wrongful or fraudulent trading
- Unfitness to be concerned in the management of a company

A disqualification order may also be made if someone is found guilty of an indictable offence in relation to a company, or is in persistent default of filing requirements under the Companies Act 1985. The Companies Act includes some sixty-nine indictable offences, and there are about fifty separate duties placed on directors with regard to filing, so there is great scope for a director to be guilty of either an indictable offence or persistent default!

Duration and effect
A disqualification order will run for a minimum of two and a maximum of fifteen years.

A person who is subject to a disqualification order may not:

- Be a director of a company without leave of the court
- Be concerned or take part in any way in the promotion, formation, or management of a company without leave of the court

Recommendations
We recommend that, as a matter of good practice, every board of directors:

- Minute carefully the particular responsibility of each board member
- Ensure that appropriate management information is provided to it at regular intervals, and that action is taken where necessary
- Record at least in outline the information presented to it, any action it resolved to take as a result, and the director or directors responsible for implementing the action
- Seek proper professional advice on all material matters not within the general knowledge, skill, and experience of the company’s own directors and senior staff
- Those who are not directors of a company, but nevertheless have a close business connection with it, should satisfy themselves that their relations with the company do not make them shadow directors.

Life is becoming tough for directors. It is difficult enough for them to discharge all their duties satisfactorily when the requirements are clear, but unfortunately they rarely are.
For many years, people leaving jobs to become self-employed were advised to instead set up one man companies to provide their services. One reason for this might be the security offered by limited liability, but in many cases the use of a 'personal service company' was to create the opportunity for some quite substantial savings, particularly of national insurance contributions (NICs).

The aim of the IR35 legislation is to stop people who, if they were claiming to be self-employed, would in fact be re-classified as employees with all the consequences for primary and secondary Class 1 NICs, using an intermediary. This intermediary being in the form of a personal service company or a partnership to obtain a tax advantage over other workers.

IR35 achieves this by forcing the company to operate PAYE in respect of an amount of notional remuneration, being basically the difference between the company's profit on work caught by the IR35 rules and the remuneration drawn by the owner-director in respect of that work.

Who is caught by these rules?
The IR35 rules aim to catch anyone who, by placing an intermediary between himself and his employer, gains some tax (including NIC) advantage.

Personal service companies
The example most frequently quoted is the consultant who, rather than working under a direct contract with a customer, contracts his services through his one-man company. Such a company has become known as a personal service company - a company which exists to provide the services of one or more particular individuals. The test for IR35 is whether, ignoring the existence of the company, the contract as it operates between the customer and the consultant is one which would lead to the consultant being classified as an employee of the customer, rather than self-employed. If the answer is that the consultant would, indeed, be classified as an employee, then IR35 applies. If he would be classified as self-employed, it does not.

If you operate your business through a personal service company, IR35 will only apply to you if:

• More than 5% of the ordinary share capital of the company is owned by you or your family, or
• You or your family are entitled to more than 5% of any dividends the company pays, or
• You are in a position to be able to receive payments or benefits from the company which are not salary i.e. not earnings to which PAYE is applied, but which represent payment for the services you provide to relevant clients.

Partnerships
Another example is a member of a partnership - self-employed - who is contracted by the partnership to a client under terms that would amount to an employment if the contract had been directly between the partner and the client. HM Revenue & Customs have in the past quoted the example of a vet in a large veterinary practice who is contracted to work by the local zoo for set hours per week. In this example, it is the services of one particular partner which are contracted, and as such, IR35 would apply. But if the zoo had instead contracted for the practice to provide any vet of suitable qualification and experience, it is unlikely the contract would be caught by IR35.

Again, there are restrictions on cases where IR35 will apply. For those providing their services through a partnership, the rules will not apply unless:

• You and / or your family are entitled to at least 60% of the profits of the partnership, or
• Work for one client generates all or most of the partnership's income, or
• Your profit share reflects the payments received for your services to clients in circumstances where the IR35 rules apply.
How can I avoid it?
There are several ways you can avoid IR35 - although they may not be palatable to you, or your customers.

First, you can avoid IR35 altogether by rewarding yourself for all work done in a form subject to PAYE. IR35 was intended to stop the avoidance of tax and NICs through the use of intermediaries - if there is no avoidance, there will be no IR35 liability.

Second, you could give up your current arrangements and seek to join the staff of your main customers. This might get around IR35, but it will limit your options and increase the costs of your customers (through NIC, holiday pay, etc.)

Finally you could examine and, where appropriate, re-write your contracts. A great deal of care must be taken, not only to ensure that the terms of your contract(s) are such that IR35 will not apply, but also to ensure that they will stand up to HM Revenue & Customs scrutiny. In particular, HM Revenue & Customs might seek to prove that although your contract might on the face of it be one to which IR35 could not apply, in fact the manner in which your relationship with your client operated was one which fell within IR35. In this case HM Revenue & Customs will insist that IR35 be applied to earnings under the contract.

If you wish to put your contracts to the IR35 test, HM Revenue & Customs will give its views - but remember that this view will be based on the information provided. If, in fact, IR35 should apply, HM Revenue & Customs will not be bound by any previous decision.
Company bonus or dividend?
In many small companies, the owners are also the directors, and this gives considerable scope for deciding how profits should be taken out of the company.

Traditionally, small companies pay salaries to the directors and tend to ignore their second role as shareholders, which entitles them to receive dividends.

Where profits are retained within a company, the situation is governed by the corporation tax rules, but when you draw profit out, income tax rules take over, and national insurance rears its ugly head.

The main considerations for choosing between salary and dividends are:

Corporation tax
This is charged on the profits of the business after taking into account all salaries. Paying a salary reduces profits and hence reduces the corporation tax bill.

Income tax
As mentioned above, income tax is chargeable on all profits withdrawn from a company. On salary, it is collected through the PAYE system. A dividend carries with it a 10% tax credit, and for a basic rate taxpayer there is no further tax to be paid. A higher rate taxpayer will have to pay additional income tax equal to 22.5% of the gross dividend.

National insurance contributions
National insurance contributions are payable on salaries, but not on dividends. There are two elements - employee contributions and employer contributions. Employees pay 11% on earnings between the earnings threshold and the upper earnings limit, and 1% on earnings above this without any upper limit. Employers pay 12.8% on all salaries above £5,715 p.a. without any upper limit.

Company law
Salaries can be paid even when a company is making a loss. Dividends can be paid only out of profits for the year, or any undistributed profits from previous years.

Other shareholders
Salaries can be allocated to different directors at any rate. A shareholder is entitled to a dividend in proportion to the number of shares held. This means that non-working shareholders would participate in any dividend declared.

This lack of flexibility can be countered by creating different classes of share with different dividend entitlements.

Cash flow
PAYE and national insurance are payable monthly; corporation tax is payable nine months and one day after the company’s year end. Additional income tax on dividends is payable on 31 January after the end of the tax year in which the dividend is paid (payments on account may be required).

Pensions
Payments of additional salaries can enhance the contributions that can be paid to pension schemes. For certain types of scheme, benefits can be based on the pay for the best three out of the last ten years before retirement, so planning for high salaries can be used to advantage.
It is clear that many factors must be considered when deciding whether directors should be paid by dividend or salary/bonus. In practice, a mixture of each is usually the best course, subject to the impact of ‘IR35’.

**Alternative ways of extracting profit**

Your company pays corporation tax on its profits, but you are only taxed personally on what you draw out of the company as a salary, bonus, or by other means. The dividends you receive from your company are effectively tax-free in your hands, if your total income for the tax year is less than about £37,000. Once you reach that limit you may want to think about extracting profits in different, more tax-efficient ways. Here are some alternative approaches:

**Maximise allowances**

Make sure you are using any tax-free allowances available such as mileage paid for the business journeys you drive, paid at the approved rate. This mileage rate varies according to the number of miles driven in the tax year, and whether you drive your own car or a company car. A low emissions company car can still be a tax-efficient way of providing a smaller car for you or another member of your family.

**Keep it in the family**

If you have young children, your company can provide you with £2,860 of tax-free childcare vouchers per year. This is doubled if your spouse or partner also works for your company. When you pay your spouse between £95 and £110 per week (2009/10 rates), they may pay no national insurance or tax on that income (depending on their circumstances). However, a wage at this level will count toward their entitlement to a state retirement pension. The company should pay at least the minimum wage of £5.73 per hour, and keep a record of the work done to justify the cost on business grounds.

**Pay attention to pensions**

The company can pay very tax-efficient pension contributions into your own (or any employee’s) personal pension scheme, or into a self-administered pension scheme. The new pension rules from 6 April 2006 increase the limit of the pension contributions you and your company can make. Care should be taken to ensure that the individual’s total remuneration package, including the pension, is justifiable for the work performed.

**Property concerns**

If you own a property that the company uses for its business, perhaps land used as a car park, a lock-up garage, or even an office building, the company can pay you a market rent. This rent should be declared on your personal tax return and you will pay income tax under self-assessment. You can offset a range of costs connected with the property and there is no NI payable on rental income. When you come to sell that property it will qualify for a higher level of taper relief to reduce the capital gains tax due.

There are other tax-efficient ways of extracting profit, such as short-term loans, or interest, which may be appropriate. Contact us for more advice.
Every business has the potential to suffer a significant loss, whether it be from terror, natural disaster, industry collapse, bankruptcy of a major client, loss of a critical supplier, or any number of other circumstances.

It could take the form of a power surge that fries your computer systems and the records it contains. It could be a flood caused by a blocked drain. It could be a power failure that leaves a warehouse of perishable goods without refrigeration. It could be a business disaster, taking the form of an unexpected bankruptcy of a major client or supplier, or it could be a sudden and serious illness to a key team member who has knowledge or skills that are irreplaceable in the short term.

The chances of being affected by one of these disasters on any given day are generally small. You don’t drive to work thinking, ‘What will I do if I arrive at work and find water pipes have burst overnight, flooded the office, destroyed our records, contracts and contact numbers, made all our IT hardware inoperable, wrecked half the furniture and basically put us out of operation for at least a week?’
It may sound a little simplistic, but there are really only 4 fundamental ways to successfully grow your business - in other words, make it more valuable:

1. Increase the number of customers of the type you want to have
2. Increase the number of times customers come back
3. Increase the average value of each sale
4. Increase the effectiveness of each process in the business

It’s interesting to contemplate the fact that all of the business development strategies you might implement will fall into one of these 4 categories. Any other strategy that does not belong in one of these 4 ways, for example cutting costs, may help you temporarily, but it won’t grow your business. Cutting costs won’t make your business more valuable unless you turn around and re-invest the money you save into one of the 4 ways.

**Time management**

Effective time management is about increasing your personal efficiency in achieving goals. The benefits are not only personal though. Whilst you may reduce your stress levels, importantly, you’ll be running your business more efficiently too. Time management is about getting control, making sure that you are not tyrannised by a series of apparently urgent tasks. It’s about giving the right proportion of your time to planning for the future as well as day-to-day tasks.

**Good time management will allow you to:**

- Have clearer personal and professional goals
- Have more control over your life
- Have a more skilled and independent workforce
- Be more confident in setting objectives

The first stage in getting a task done involves setting the final objective. There is a large danger here of setting objectives that no amount of planning or work can achieve – unrealistic objectives. The trick is to set objectives using what is referred to as the SMART criteria. A SMART objective is:

S – specific
M – measurable
A – attainable
R – realistic
T – time bound

**Specific**

Unless goals are specific, it’s very hard to develop strategies and set timelines.
Measurable
If a goal is measurable, you can track your progress and take remedial measures if necessary.

Attainable
If you set goals that are not attainable, both you and your employees are likely to become exhausted and demoralised trying to achieve them.

Deciding what is, and is not, attainable requires you to closely analyse your business, your market and your resources. This is naturally a good thing.

Realistic
A goal is realistic if you believe it is attainable. This comes back to the principle of knowledge. Analyse your strengths, weakness, opportunities and threats (S.W.O.T.). The task demands a decision to establish how realistic a goal is. Even when a goal is realistic it can be more or less easy to achieve.

Goals that are easy to achieve won't require you to ask yourself questions about the efficiency of your business or stretch your imagination.

A goal that is difficult, though still realistic, is the sort that will have you working at your best to achieve it.

Time bound
Setting a time makes your goal more readily measurable. Setting a time also requires you to set out realistic stages and deadlines. Time becomes a way to measure the success of your business.

Optimising your work time begins with identifying the causes of wasted time and learning to avoid them. Here are some suggestions for effective time management:

- **Procrastination** - Indecision, or not making a decision at all, is perhaps the biggest cause of ‘inactive’ time.
- **Imprecise objectives** - Having a clear idea of what you want to achieve at the start of the day is the best safeguard against directionless ‘drift’.
- **Interruptions** - Minimise distractions that affect your productivity - especially unnecessary telephone calls or personal visitors.
- **Over-ambitious targets** - Avoid setting yourself goals that are too ambitious, or giving yourself too little time in which to complete your goals.
- **Prioritising tasks** - Use an urgent/important matrix to prioritise your tasks. Start with those that are both urgent and important and then proceed to those that are important but not urgent. Avoid altogether those that are neither urgent nor important!
- **Delegation** - Delegation is a key benchmark in effective management. If one of your staff can do a job 80% as well as you can, delegate it. Be sure to communicate fully the elements of the task so that you do not end up having to do it all over again!
- **Meetings** - Rambling discussions without clear objectives waste a lot of time and effort in meetings. Devise a clear plan and a realistic but economical schedule for each meeting. Avoid meetings where your presence is not essential.
- **Clear desk policy** - Many time management experts argue that the most effective people work from clear desks. When something lands on your desk you have three options: action it, file it, or bin it!
- **Just say ‘No’** - When colleagues ask for your help if you think that obliging them will harm your own productivity find a polite way to decline.
- **Respect for time** - Showing respect for how others organise their work time helps staff maximise their productivity and not feel distracted.
One day an expert in time management was speaking to a group of business students and, to drive home a point, used an illustration those students will never forget. As he stood in front of the group of high-powered overachievers, he said, ‘Okay, time for a quiz.’ Then he pulled out a one-gallon wide-mouthed Mason jar (a wide mouthed jar often used for home preserving and canning) and set it on the table in front of him. Then he produced about a dozen fist-sized rocks and carefully placed them, one at a time, into the jar. When the jar was filled to the top and no more rocks would fit inside, he asked, ‘Is this jar full?’ Everyone in the class said, ‘Yes.’ Then he said, ‘Really?’ He reached under the table and pulled out a bucket of gravel. Then he dumped some gravel in and shook the jar causing pieces of gravel to work themselves down into the space between the big rocks. Then he asked the group once more, ‘Is the jar full?’ By this time the class was on to him. ‘Probably not,’ one of them answered.

‘Good!’ he replied. He reached under the table and brought out a bucket of sand. He started dumping the sand in the jar, and it went into all of the spaces left between the rocks and the gravel. Once more he asked the question, ‘Is this jar full?’ No! The class shouted. Once again he said, ‘Good.’ Then he grabbed a pitcher of water and began to pour it in until the jar was filled to the brim. Then he looked at the class and asked, ‘What is the point of this illustration?’ One eager beaver raised his hand and said, ‘The point is, no matter how full your schedule is, if you try really hard you can always fit some more things in it!’ ‘No,’ the speaker replied, ‘That’s not the point. The truth this illustration teaches us is: If you don’t put the big rocks in first, you’ll never get them in at all.’

What are the ‘big rocks’ in your life? Your children, your loved ones, your education, your dreams, a worthy cause, teaching or mentoring others, doing things that you love, time for yourself, your health, your significant other.

Remember to put these BIG ROCKS in first or you’ll never get them in at all. If you sweat the little stuff (the gravel, the sand) then you’ll fill your life with little things you worry about that don’t really matter, and you’ll never have the real quality time you need to spend on the big, important stuff (the big rocks).

So, tonight, or in the morning, when you are reflecting on this short story, ask yourself this question: What are the ‘big rocks’ in my life? Then, put those in your jar first.’
So, after taking the time to plan your business, following all the necessary steps to establish it, and opening your door to the world, you hopefully are thrusting forward in this wonderful new environment.

What we have contained here in this guide, are really just the ‘bare bones’ of some of the issues you need to consider in starting up a new business. Always take professional help when you have a problem, or even in anticipation of one.

The business world is a complex one and successful entities are those that continue to learn, improve, change and adapt to changing circumstances.

Finally, everyone at the Made Simple Group wishes you much success with your business.

Best wishes

Howard Graham, Founder
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<td><strong><a href="http://www.businesslink.gov.uk">www.businesslink.gov.uk</a></strong></td>
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