Chartered Certified Accountants

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HOW TO START A BUSINESS OR BECOME SELF-EMPLOYED - INFORMATION FOR CLIENTS

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How can I start a business? How do I become self-employed?

More than 5 million people are self-employed in the UK. If you are thinking of taking the plunge, it can be quite daunting. You need to think about your business structure, budgeting and paying your own tax. In this guide, you can discover the pros and cons of working for yourself, how to keep accurate records and what help is available to you if you choose to become self-employed.

What to think about when starting a business or becoming self-employed

1. What help is available if you become self-employed
2. Different kinds of self-employed businesses
3. Thinking of buying a franchise?
4. What you need to do when starting a business and becoming self-employed

The key to working for yourself or starting a successful business is to plan, plan and then plan some more!!!

Working for yourself can be very rewarding:

- ✓ Do something that interests you or your passionate about.
- ✓ Choose your own hours.
- ✓ Work around other commitments like your children.
- ✓ Have more control over your income.
- ✓ But there are also some downsides:
- ✓ Working long hours and weekends.
- ✓ Dealing with an irregular income.
- ✓ Having to do your own bookkeeping and tax return.
- ✓ Limited or no access to employment benefits like paid leave.

1. What help is available if you become self-employed

Fortunately, when it comes to self-employment, there's plenty of help and advice out there.

Government-backed advice services around the UK will help you with everything from creating a business plan and researching the market, to finding finance and recruiting staff.

So, depending on where you live, they should be your first port of call.

- England – GOV.UK
- Wales – Business Wales
- Scotland – Business Gateway
- Northern Ireland – InvestNI

2. Different kinds of self-employed businesses

If you're thinking about starting your own business or becoming self-employed, one of the first things you will need to think about is your business structure.

Sole trader

This is the simplest business structure. You will run your own business as an individual and keep any after-tax profits. However, your personal and business assets are not considered separate. This means you're personally responsible for debts associated with the business. You can reduce this problem by taking out insurance, or by choosing one of the other business structures mentioned below. Don't be put off by the idea of being a business. A sole trader is just that – one person, you, working for themselves. Becoming a business is just the official term.

To become a sole trader, all you need to do is register as self-employed with HM Revenue & Customs (HMRC).

Partnership

A partnership, as the names suggests, is when you go into business with one or more other people and have shared responsibility for the business.

It's important you draw up a partnership agreement, so everyone involved knows how the profits are split up.

Business debts are dealt with under what is known as Joint and Several Liability. This means all members of the partnership are responsible for the debts either in full, or individually, depending on how much they can afford to repay.

All partners will need to submit a Self-Assessment tax return for their own share of the profits, and a nominated partner will have to submit a partnership Self-Assessment for the business.

Private limited company (Ltd)

A private limited company (Ltd) is its own legal entity and is separate from the people owning and running it. It will need to be registered (or incorporated) with Companies' House, must have a suitable name and an address. The company will have a director (usually the person who started the business) who is legally responsible for running the company, and at least one shareholder (also known as a member). A Ltd will have to pay corporation tax on any profits, and the after-tax profits are divided up among the shareholders.

The company will need to submit its annual accounts to Companies' House and a tax return to HMRC. The director will also need to fill in a Self-Assessment tax return but will only pay tax on the money they earned by running the business, not the profits.

While these are the easiest to set-up and understand, there are some other options.

A Limited partnership

limited partnership must have at least one general partner and one limited partner. The general partner is responsible for running the business and the partnerships' debts. The limited partner is only liable for the amount they originally invested in the business.

Limited liability partnerships (LLP)

LLPs are a hybrid of a partnership and a limited company. Like a partnership, it can be set up by two or more people, but like a Ltd, it must be incorporated with Companies' House, have a suitable name and address and is legally separate from the individuals running it.

It must also have at least two shareholders (or members) and each shareholder pays tax on their share of the profits. Partners liability for the business debts are limited to the amount of money they invested.

3. Thinking of buying a franchise?

If you are interested in becoming self-employed or starting your own business, but don't want to start from scratch, a franchise might be worth considering.

A franchise is where you buy a licence from a business owner to use an existing business idea and brand name. Some well-known franchises include fast food chains McDonalds, Burger King and KFC, but there are thousands of other franchise opportunities available from global names to local organisations.

The start-up costs can be quite high, but you will be buying into an established brand and the deal should include training and guidance on setting-up, running and growing your franchise.

But be aware of scams. Check that the brand is established, and that the franchiser is marketing the brand actively.

4. What you need to do when starting a business and becoming self-employed

When you are thinking about becoming self-employed or setting up a business, there are a lot of things you need to consider. This is not an exhaustive list, but it does cover some of the major areas you will need to think about.

Draw up a budget

First, and possibly most importantly, you need to draw up a budget. You need to think about all the costs it's going to take to get your business off the ground and operational. These costs might include:

- ✓ renting a business premises or shop front and costs associated with it including electricity and internet access
- ✓ buying or hiring vehicle(s) and the cost of fuel and maintenance
- ✓ equipment including tools, computers and phones
- ✓ setting up and hosting a website
- ✓ advertising and marketing materials
- ✓ Staff.

But remember, you might not need all of these. Many profitable businesses have no need for a physical premise, you might already have a lot of the equipment you need and staff might not be necessary until the business is more established.

However, you will also need to think about your personal costs such as rent, mortgage, utility bills, childcare, and food.

You will then need to think about how much of your own money you can afford to invest to find out if you will need to look for investment or a business loan.

Business plan

There are two main reasons for writing a business plan:

1. For business reasons so you can set out your objectives, develop ideas and plan for the short and medium term.

2. To present to people outside your business, usually to banks or potential investors if you're looking to raise money.

Regardless of who you're presenting it to, it's important to be realistic and honest about your costs and earning potential. If it will be seen by people outside your business, make sure it looks professional, is well structured and contains all the information people would expect to see.

Paying taxes

If you are thinking of setting up your own business, you will also need to register for Self-Assessment to pay your own taxes.

You pay tax and National Insurance on your self-employed earnings in arrears. This means any tax you owe on money earned in the 2021/22 tax year is not due until January 2022.

This means you will need to plan how you will pay what could be a substantial bill. The good news is you will have a good idea about how much tax you owe at the end of the previous tax year, which gives you nine months to prepare.

If you're setting up a private limited company (Ltd) or limited liability partnership (LLP) you will also need to pay corporation tax on your profits.

Registering for VAT

If you have a VAT taxable turnover of more than £85,000, you will need to keep digital tax records and submit VAT returns using Making Tax Digital. Find out more on the GOV.UK website.

If your business has a VAT taxable turnover of £85,000 or more, you will need to register for VAT. But some businesses might benefit from registering even if their turnover is below this.

If you are VAT registered, you will need to charge VAT on the goods and services you supply. You will also have to complete a lot of additional paperwork. However, you can claim back VAT you pay for goods or services relating to your business.

Record keeping

If your combined annual turnover is less than £150,000 a year, you can use a simplified version of expenses called cash basis. Cash basis is a way to work out your income and expenses for your Self-Assessment tax return, if you're a sole trader or partner.

If you've never been self-employed before, something you will need to get to grips with quickly is record keeping.

You will need to keep track of what you are charging clients for your goods and services, as well as any business-related expenses. Acceptable records include receipts, bank statements, invoices and till rolls.

You will not need to send your records when you submit a tax return, but you will need to keep them for five years after the relevant tax return submission deadline. For example, for your 2020/21 tax return, you will need to keep your records until 31 January 2026.

Traditional accounting vs cash basis

If you have a combined annual turnover of less than £150,000 and are a sole trader or in a partnership, you can use cash basis accounting, rather than traditional accounting.

With traditional accounting you pay tax and claim expenses based on the invoice or billing date.

If you choose to use cash basis accounting, you pay tax and claim expenses based on when the money leaves or enters your account.

Why would this matter? Well, if you're getting paid for work on a monthly basis, then there's probably very little difference. But, if you agree to and invoice someone for work several months before you get paid then it can change the year you pay tax on that income.

For example, if you use traditional accounting and invoice someone in March 2021, but don't get paid until July 2021, you have to declare this income on your 2020/21 tax return and pay the tax on it by January 2022.

If you use cash basis, you would have to declare this income in the tax year you got paid, which is 2021/22. This means you would not pay tax on this until January 2023.

However, there are some downsides to cash basis accounting. For example, you can't offset losses against your taxable income, or claim for more than £500 in interest costs, so you might want to get advice about what is best for you and your business.

Do you need an accountant?

This is a difficult question and there is no definitive answer. If your business is brand new and you have a simple financial situation, you might want to see if you can manage by yourself, at least in the short term.

However, hiring an accountant can be a good thing as most can provide advice on tax planning and offsetting expenses against income. It also does not need to be expensive.

If you're looking at hiring an account, make sure they are a member of a relevant trade body. Such as the Institute of Financial Accountants (IFA) or the Institute of Chartered Accountants in England and Wales (ICAEW).

Accountants might also be registered with the Financial Conduct Authority (FCA). However, some accountants are exempt and are not required to be authorised by the FCA when engaged in some regulated activities.

Do I need a business bank account?

If you are a sole trader or in a partnership, you do not need to have a business bank account. But you might find it useful to keep your business and personal finances separate, particularly if you are in a partnership.

If you're running a limited company you do need to have a business bank account.

Like personal accounts, business bank accounts have a number of different features. You can compare different business bank accounts on comparison sites.

Bookkeeping software

If you want some help with your record and bookkeeping, then you can ask your Accountant and set up onto cloud based accounting software such as Xero Accounting

Personal and business insurance

If you are running your own business, it is important to make sure you're insured.

You will certainly need some kind of business cover, such as public liability and equipment insurance, but there are a wide range of products available.

As you no longer have an employer to rely on for sickness cover or health insurance, you might also want to consider a personal insurance policy.

For initial advice about Accounting and Taxation; call our team on 0203 488 7503, 01992 236 110 or contact us by email at welcome@walshwestcca.com or via our website www.walshwestcca.com and we will help you.