Getting Started

Structure

Once you have come up with your business idea and have confirmed that there is a market for your product or service the next step is to decide how you will operate. The options are:

- A sole trader
- A company
- A partnership
- A limited liability partnership

Each has its merits but if you are opting for anything other than as a sole trader you should seek professional advice before doing so. Having said that let's look at the basic differences:

1. Sole trader

This is when there is a single owner of a business and that person is responsible for the overall running of the business. It is the simplest structure.

The sole trader bears all of the risks and rewards and therefore keeps all of the profits that the business makes.

The business owner is liable to pay tax and national insurance on the business profits.

2. Company

A company is a separate legal entity from the business owners who are generally shareholders and directors.

The business owners are protected to some degree from risk and because of this the company has added reporting responsibilities.

The company pays corporation tax on the profits of the business which is at a lower rate than income tax.

Some or all of the profits are distributed to the owners in the form of a salary or dividend and they personally pay tax and national insurance thereon.

3. Partnership

This is similar to a sole trader except that there are two or more owners.

The business owners bear all of the risks and rewards themselves.

The profits are shared between the owners and they pay tax and national insurance thereon.

4. Limited Liability Partnership

This is like a normal partnership but offers some protection from risk for the partners.

Most therapists, coaches and service providers generally start out as sole traders and transfer to a company at a later date once the business has become well established. There are however exceptions. For example, when services are being provided to large companies who will often only working with other companies. If it is anticipated that the business will grow rapidly from the outset a company may be the right structure from day 1.

The course and these related notes are primarily directed at sole traders, but additional notes have been included where appropriate when they rules are different for companies.

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Registering with HMRC

You must notify HMRC that you have become self-employed and how you do this will depend on whether you have previously submitted a tax return.

If you have previously submitted a return:

You will need to register online using a CWF1 form and you will need your ten- digit self-assessment number (UTR) to do so. You can find this on any previous correspondence you have received from HMRC. If you do not have the reference you can contact the self-assessment helpline on 0300 200 3310. They will ask for your national insurance number so have it to hand before you call.

The link to access the CWF1 form is:

https://www.tax.service.gov.uk/shortforms/form/CWF1ST?dept-name=CWF1&sub-dep

If you have only submitted paper returns before you will need to register for an online account as well and this can be done using the following link:

https://www.gov.uk/log-in-file-self-assessment-tax-return/register-if-youre-self-employed

If you have never submitted a return:

You need to register as self-employed and set up an online account using the link below:

https://www.gov.uk/log-in-file-self-assessment-tax-return/register-if-youre-self-employed

HMRC will send you a ten-digit self-assessment number and you will receive an activation code through the post. Use the activation code as soon as it arrives as it is only valid for 28 days.

Company Directors

If you are operating via a company HMRC will be notified by Companies House when the company is incorporated. However, as a director you will also have to register for self-assessment when you start to receive taxable dividends. The link for directors is:

https://www.gov.uk/log-in-file-self-assessment-tax-return/register-if-youre-not-self-employed

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Setting Up Your Basic Financial System

Bank Account

As a sole trader you are not legally required to have a separate business bank account and you can use your standard personal account for both business and personal transactions. However please do not do this!

If your business is still very small you could use a second personal account for your business.

However, there are a number of reasons why you should have a business bank account.

1. The terms and conditions of your personal account may state the account is for personal use only. The bank may threaten to close the account if they realise it is being used for business purposes.
2. To make it easier to maintain your accounting records and keep things clear for HMRC.
3. To appear more professional, particularly if you are operating under a business name.
4. As the business grows you will be able to have a separate business credit card, borrow money and take card payments from customers.

The downside of a business bank account over a personal account is that most high street banks charge monthly fees after the first 12 months. There are however a number of new challenger banks that do not charge monthly fees.

If you are operating as a company, you must have a separate bank account in the name of the company.

Accounting System

If you want to avoid mountains of invoices, stress and an ongoing dislike of dealing with your business finances you must put an accounting system in place from day one.

We favour Xero's online package because it is easy to use and will save you so much time. It allows you to raise invoices and do your bookkeeping at the same time. It is not the cheapest system available, but it is well worth the investment in the long term.

Your bank transactions feed directly into the accounting software, and if you ensure that all of your business expenses go through the business bank account, recording your expenses is a piece of cake.

Xero makes keeping your accounting records easy and fun and you can even take pictures of receipts on your phone and upload them to the system.

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Maintaining your financial records on a weekly, if not daily, basis will give you confidence around your business finances, how much profit you are making and how much you can spend or withdraw from the business.

When Is the End of my Accounting Year?

You can choose the date that you wish to prepare you accounts to. However, the most tax efficient dates are 31 March and 5 April. If you choose any other date a proportion of your profits in the first year may be taxed twice.

It is always easier to use the end of a month and therefore 31 March is the best date to choose.

Do I Need to Register for VAT?

You don't need to register for VAT until your turnover exceeds £85,000 in a 12 month period.

You can however register early if it is in your interest to do so. This would be the case if you are providing services to VAT registered businesses as you will then be able to recover the VAT from the expenses you incur. VAT registered businesses will not be concerned if you are VAT registered, or not, as they will simply recover any VAT you charge.

What Insurance Do I Need?

We live in a litigious society and you therefore need to ensure that you are protected from exposure to financial risk. As a minimum you should ensure that you have:

- Professional indemnity insurance and
- public liability insurance.

If you have employees you must also have employers liability insurance.