START A BUSINESS

A How To guide for setting up shop

Unsquared Accounting Limited

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Introduction

You're on your way to starting a business - congratulations! What you might not know is that there are a number of options for you to consider, some perks that you might not know about, and - we hate to say this - some pretty serious responsibilities too.

If this sounds like unfamiliar territory, don't worry, this guide will take you through everything you need to know. From choosing the legal structure of your company, to showing you how to get paid on time - we've got it covered.

We've drawn on knowledge from our team of qualified accountants, tax experts and small business specialists to produce this quick start guide to getting your business up and running.

Legal structure

You need to decide whether to set up as a sole trader or as a limited company. There are quite a few differences between each option and you should consider each to see what's best for your situation.

The kind of tax your business pays will depend on whether you choose to operate as a sole trader or limited company.

Sole trader

Rigidly defined, a sole trader is "a person who is the exclusive owner of a business, entitled to keep all profits after tax has been paid, but liable for all losses." It's a form of business ownership unique to the UK that provides you with maximum ease and flexibility, but no protection from any business losses.

To become a sole trader, all you have to do is register with HMRC as self-employed within three months of starting your business. You then simply keep records of your business expenses and make sure you also keep records of all your business and personal income as you go. You pay your taxes each year, usually in two payments on the 31st January and 31st July. This is called Self Assessment. We've got an article all about Self Assessments and who has to complete one.

Sole Trader Taxes

As a sole trader you pay National Insurance and Income Tax based on your sole trader profits. You can claim a number of expenses to reduce your profits which means you'll pay less in taxes. As a sole trader, you usually pay two types of National Insurance Contribution (NIC) - one rate (class 2) that's charged weekly at a set amount if you earn above the Small Profits Threshold, and another based on a percentage of your profits over the Lower Profits Limit.

We've got an article explaining self-employed National Insurance.

You'll also have to pay Income Tax via your Self Assessment at your personal marginal rate. See our rates, thresholds and allowances page for the latest figures. If your income from your sole trade business turnover goes above the VAT threshold (£85,000 in the 2019/20 tax year) you'll need to register for VAT and use Making Tax Digital compliant software (such as Crunch) to file quarterly VAT returns - we'll cover VAT a little later.

Don't forget though that although the money you earn as a sole trader is mostly yours - you'll still need to pay tax. You'll need to make sure that you put some money aside to pay what you owe - our article can help you estimate how much to put aside, and how to pay yourself as a sole trader.

Limited company

Running your business through a limited company is a bit more work, but offers a number of advantages. For example, sole traders are 100% legally and financially responsible for any losses made by their business, whereas limited company directors are protected by limited liability.

This means that if legal challenges arise in your business, the company is sued rather than you personally. Likewise, if the company goes broke, the company goes into administration, as opposed to you going bankrupt.

Limited company taxes

Your limited company will pay Corporation Tax on its profits. Again, Expenses can be offset against your income to reduce profits, and reduce the Corporation Tax bill. If your company makes a profit, which it hopefully will, then you have two options available to you. You can either reinvest it into the company (retain profits) or take it out and pay shareholders by issuing a dividend.

The term “shareholder” simply refers to the owner(s) of the company. So, if you own and manage your limited company, you can pay yourself a dividend. This can be a tax-efficient way to take money out of your company.

This means you have the opportunity to become more tax efficient by splitting your income between company salary and dividends. You’d be liable for Income Tax and National Insurance on your salary as you would if you were directly employed. However, you can choose to pay yourself a salary just below the National Insurance Primary Threshold and if you have no other income then you won't need to pay any tax on your salary. Our article "How much should I take as a salary?" explains this in more detail.

Your company doesn't need to pay tax on any dividend payments it issues, but the shareholders may have to pay tax on the dividends they receive based on their personal circumstances, through their annual Self Assessment. Individuals usually have a tax-free Dividend Allowance (£2,000 in the 2019/20 tax year) and the Dividend Tax Rates are lower than the Income Tax rates so you should pay less tax.

Through combining dividend payments with a salary, you can ensure that you're at optimum tax efficiency. You can find out more about dividends in our "What are dividends and what taxes do I pay on them?" article.

You may also be required to collect VAT. This is an additional sum which is added to the price of the goods and services provided by your company. You're not automatically registered for VAT and will not need to register for (or charge) VAT unless your annual turnover exceeds the VAT registration threshold. For some companies, voluntary registration may be worthwhile. Our article explains who needs to register for VAT, when to register and how to do it in more detail.

If you do need to register for VAT then you'll need to make sure that you meet your obligations under Making Tax Digital (MTD) - this is HMRC's programme to move tax reporting and collecting online. We've got all the information you need about MTD and how it could affect your business. For now, it's only VAT registered businesses above the VAT threshold who must use MTD compatible software to record and automatically report their VAT data to HMRC.

Registration

You need to notify HMRC as soon as you've decided to start working for yourself because it will affect your tax situation.

Limited company

Once you've decided to set up a limited company, you have to choose which type you wish to form. The two main choices are:

Private Limited Companies (LTDs)
Public Limited Companies (PLCs).

Most freelancers, contractors, start-ups and small businesses will opt for a Private Limited Company, as PLCs must have a minimum share capital of £50,000, at least two shareholders, two directors and a qualified company secretary.

We can register your company for you. Have a look at our Blueprint service for start-ups for more information. You just have to supply certain personal details to help Companies House identify you as a company director, and you're good to go. Companies House will often have your limited company formed in a few hours.

Sole trader

If you're going to be working as a sole trader, there are two options available. The first is to register online by going to the Gov.uk site. The whole thing is pretty straightforward, just follow the process and you'll be registered as self-employed in no time, we explain it further in our helpful "how to register as self-employed" article. You'll now be registered up until the point you de-register (if you ever need to). You won't need to re-register each tax year.

You can also, if you're willing to face HMRC's call centres, complete your registration by calling 0300 200 3500. They'll take you through everything and get you set-up straight away.

Branding

Branding is a way of defining your business to yourself, your employees and your customers/clients. Your brand identity will incorporate things like company names and logos, but is more about what the business does, and how it does it.

Name

You'll only have to come up with an official name for your company if you've decided to operate as a limited company, but either way, you might want to operate under a trade name.

When choosing a name, it's especially important to think about your online presence. Is the name something people will search for and be able to spell? Is there a website domain available for the name?

Also, check to see if there are any other companies with the same name. Your company name will have to be unique if registering with Companies House, but otherwise, you should make sure it's not used by anyone else both for trademark reasons and because you don't want to confuse your customers. Our article 'How to come up with a great company name' explains this in more detail.

Logo

A logo really isn't crucial, but it can add that extra wow factor that makes you stand out as a legitimate professional. You don't have to be winning any design contests (unless, maybe, you're actually a designer) - think more along the lines of establishing the way your brand comes across and keeping it consistent. You can do this simply by using the same fonts and colours across all the work you do and making sure basic design elements like text and date formatting are kept consistent.

Website

Not making a website for your business is a bit like organising a party and forgetting to send out any invitations. Today, it's such a quick, cheap and easy way to get your business more attention that every business should have a presence online.

There are a whole host of services to help you build your site, the most popular being Wordpress, Wix and Squarespace. Domains are pretty cheap these days too, and depending on your choice could cost you as little as £10 a year.

Social media

It only takes a few minutes a day to post an update on Facebook, send out a few tweets or connect with someone on LinkedIn - a small price to pay for the extra exposure. Each platform is different and should be approached in its own way. Check out our social media marketing for beginners guide to learn more about what strategy is right for your business.

Insurance

Business insurance comes in many shapes and sizes - you can't just buy "business insurance" and be done with it. You'll need to pick and choose what policies are a good fit for you and your business.

Here are the options you'll need to consider if you work for yourself.

Professional Indemnity Insurance

This covers you if a client suffers financial loss as a result of your professional advice or service. For example, it could protect you against a compensation claim from a client for negligence or mistakes, covering the potentially expensive legal costs.

It's not required by law but is recommended for more risky professions, as it will basically cover you for any mistakes you might make.

Public Liability Insurance

Although not required by law, this kind of insurance is essential if members of the public will be interacting with your company in some way - from customers receiving deliveries, to clients visiting your office or work premises. If you work from home and meet clients at your home office then you should also consider getting this insurance. A policy will cover you if someone is injured in some way by your business, or if you damage third party property when carrying out work.

Employers' Liability Insurance

You'll need to get this if you're employing staff, as it will cover your legal liability for injury or death to employees, including claimants' costs and expenses.

Employer's Liability Insurance, for instance, is compulsory for any business that has one or more employees, whether they are permanent, part-time or temporary.

Other insurance

Aside from these common policies, there's also things like tax liability cover, legal expenses and contractor sickness cover that might appeal depending on your circumstances.

If you think you might need cover, we offer a range of bespoke insurance packages designed to protect you against the risks you're exposed to in your professional capacity.

Accounting

Keeping track of income and expenses is a necessary part of working for yourself. As your business grows, you'll be able to get some help - but there are a few rules you need to follow when you're just starting out.

1. Be transparent

Anyone can be investigated by HMRC. Depending on what you've done, you could face anything from penalties and fines to jail time. Transparency isn't just best practice for your taxes, it's best for your business, too. It forces you to keep track of all the money that's coming in and going out. You can then use this information in helpful ways, like planning business strategies or reducing the amount of tax you need to pay.

2. Keep records updated

Set aside an amount of time each week to do your books - maybe even set yourself an alarm on your phone or a recurring calendar booking. Remember, as soon as you let your accounts get out of hand, a backlog will begin to form that could deteriorate into a massive (and potentially very expensive) headache.

3. Learn more about finance for the self-employed

Bookkeeping isn't just about tracking your cash flow. There are various ways to analyse your income and expenses to find ways to cut back on costs and make more money. If you're not quite sure what you're doing, there's a lot of online support. Check out our other great business guides, for example.

Our Crunch Knowledge section is home to a huge range of helpful articles with business advice and information for the self-employed. HMRC also offer some handy free services to help get you started.

4. Be thrifty

Great, you've made some money - just don't forget that some of that belongs to the taxman. Make sure you budget for this as you go, so you won't get a shock when it's time to pay your tax bill. Consider opening a deposit or business savings account and put money aside to pay your taxes. Online accounting software can help you see at a glance how much tax you owe and how your business is performing.

Make sure you stay on top of your invoices, too. Never be shy about chasing a late-paying client; even if you have 25-day payment terms, encourage your clients to pay as soon as they receive your invoice.

Cashflow

One of the biggest challenges you'll face working for yourself is balancing your income and outgoings - what's known in the business world as "cash flow". Clients, especially more high-profile ones, are renowned for not paying up on time.

The first step is to make sure you send out a proper invoice. We've got some handy invoice-templates for you to download for free.

The key to getting paid on time is to be proactive in handling your outstanding invoices. By following the simple points below you will ensure your payments arrive on time, and you'll also more easily spot early warning signs that indicate a problem.

1: Approximately one week after issuing the invoice and prior to the expected payment date, make contact with the client by telephone or email.

Confirm the invoice has been received and that there are no issues with the services provided so far.

2: On the due date, ensure you send a statement if no funds have been received. Remember a statement is just that - a statement of the account, it is not a request for payment.

3: At seven days overdue, send a reminder letter or email to the client requesting payment.

4: Between seven and 14 days overdue, a call should be placed to query why no payment has yet been received. Make a note of any promise of payment.

5: At 14 days overdue a second stronger letter requesting payment and warning of further late payment charges should be sent to the client.

6: From day 15 to day 30 you should make regular contact with the client by telephone to ascertain the reason for the delay. If you have provision for the cessation of work due to non-payment this must be illustrated to the client.

7: Keep notes of any calls or emails sent to or received from the client regarding payment. This will help should a promised payment not arrive, as you will have the record of the broken promise.

8: If no payment is received by day 30 your company must carefully weigh up the risks involved in continuing to supply services that have yet to be paid for. Can your organisation survive should the next invoice be unpaid?

If you have an account unpaid at 30 days overdue, do not hesitate to stop supplying services to the client. Whilst you may have built up a strong personal relationship with the client, above all else, this is business and must be treated as such.

To help you out, here are some handy late payment reminder letter templates you can send out to your tardy clients.

Please note, however, that these letters are a basic guide and your company may have other procedures to deal with defaulting customers. If so, include these in your requests for payment. If your contract includes provisions relating to the transfer of assets or intellectual property these should also be included.

...And you're off!

Starting a business can be daunting, but you're on the right track by getting stuck into some research - we hope you found this guide helpful!

Don't forget, our Knowledge section contains even more handy articles, downloadable guides, and free tools and resources to help you and your business thrive.