



This is a sample section from "Going Self-Employed" - your essential business start-up guide. Not the most riveting section it has to be said! To purchase the book go to www.startbusiness.co.uk

The information junkies section

Chapter 8 FAQs A Collection Of "What About" Questions

FAQ's are great, they can mop up the bits that my brain has forgotten. They are listed randomly but comprise some of the most often asked questions by start-ups. Invariably they will start with "what about....." Hence the chapter title.

What about a form of trading?

There are seven ways in which you can structure your business:

- Sole Trader (i.e., just good old you!)
- Partnership (minimum of 2 people)
- Limited Liability Partnership
- Company Limited by Guarantee
- Private Limited Company
- Public Limited Company (not a common option for a start-up business)
- Co-Operative



Partnerships

Partnerships should draw up a Deed of Partnership. This will show how profits will be shared, (and any losses!) And cover the retirement, or withdrawal of one of the partners, should they decide to split up. Without a Deed of Partnership, profits (or losses) would be shared equally. A solicitor's advice should be used to draw up the agreement.

Partnerships formed between friends can be likened to a marriage, and sadly not all run to plan, so be prepared and try to anticipate any problems. Clearly define the role and responsibilities of each partner. Cynics even advise clarifying when holidays etc., are taken!

There is a relatively new form of trading in the UK, Limited Liability Partnership. LLP offers those setting up a partnership the flexibility to operate as a partnership, while the liability of the partners can be limited.

LLPs register details with Companies House, file annual accounts, and notify them of any changes to member's details and addresses.

Partners will still be subject to the same tax system for a traditional partnership. The main benefits of the new status appear to be greater protection from personal bankruptcy, protection from fraud by another partner and the tax situation. Presumably, LLP status will also not require members to pay National Insurance as an employer and employee. To set up an LLP will currently cost £95 and £20 to register and submit an annual return. More details are available on the Companies House site, www.companieshouse.gov.uk

LIMITED LIABILITY COMPANY

In law, a limited liability company is a legal entity in its own right and so it can be sued. The owners (shareholders) are liable only for any amount of remaining unpaid shares for which they have subscribed, hence the limited liability term. However, if the owners need to borrow to start the business they will probably have to personally guarantee any loans. An accountant or solicitor can incorporate your company. Also agents specialising in company formation can be found in magazines like Exchange and Mart, and they can provide you with an 'off-the-shelf' limited company for about £120.

Some clients expect to deal with a limited company, believing they are dealing with a 'proper' business, and currently there can be tax advantages; an accountant can advise you in light of your individual backgrounds. Sole traders and partnerships are taxed at individual rates, but a limited company is subject to corporation tax. Bear in mind that you will have to file audited accounts and the Directors (owners) of a limited company are subject to rigorous legal obligations. Not as onerous as it sounds though.

What about registering a business?

There is much confusion with this requirement when starting up a business. Often start-ups will ask; "How do I register my business?" If you intend to trade as a sole trader or partnership, you do not need to register a business name. However, if you decide to form a limited company you must register the business with:



Sole Traders and timing the tax year.

If it isn't too important when your tax year runs, it will be much easier for you if you run with the same one as the Inland Revenue - in effect April to March the following year.

You will find it so much easier to compile your self-assessment tax forms, as these dates coincide with them.

However, if March is not a quiet year end because you are too busy for a stock take, for example, then pick dates that suit you.

Companies House
Crown Way
Cardiff
CF14 3UZ
Tel: 029 20388588

The only other form of 'registering' the business is when you tell the Inland Revenue.

Don't get fined.

You must now register as self-employed, within 3 months of starting your own business. You can register on 0845 608 6000. A start up pack will also be sent to you, detailing how to handle your National Insurance payments, etc. Ironically, the pack has a red tape around it which needs cutting before you can get at the contents inside. The Revenue has either a sense of irony or used the services of a marketing consultant. Failure to inform the Inland Revenue will result in a £100 fine – you have been warned!

What about accounts?

In business it is important to keep proper books and records. If you are trading as a limited company the bookkeeping, etc. must meet the requirements of the Companies Act. Choose your accounting year to suit your type of business and try to coincide your year-end accounts with a quiet period, this will give you time to carry out related tasks like stocktaking. Your accounting year need not coincide with the 'tax year' or run from the beginning of January to the end of December!

Changes under self-assessment taxation have made things easier for sole traders (honestly) but if you have any questions contact your local tax office and consult an accountant. To source an accountant ask around locally or check in Yellow Pages – always get a quote first before committing yourself to their services. Limited companies will need to file audited accounts and will require the services of a good accountant. Even if you plan to use a bookkeeper, it probably isn't a bad idea to attend a bookkeeping course at a local college. At least you can grasp the principles and have an idea if your bookkeeper is competent or not!

But, if your talents and skills are in other areas of running the business, why waste a day a week or so on bookkeeping when your time could be better served selling or manufacturing?

Accountant

A man hired to explain that you didn't make the money you thought you did.

Maxim Drabon



What about registering a business name?

The Business Names register was abolished several years ago. You can trade under your own name and as it is not classed as a 'business name' then registration is not required. If you use a business name you should check that it is not in use already. You could face legal action if you are found 'passing off' a business name already in use. For example, only a fool would use Macdonald's for a fast food business!

If you form a limited company, a check is done automatically and you can always ring Companies House (029 20388588) and check if the name is in use. Unfortunately, they can only advise you about limited companies and not sole traders or partnerships trading under a business name. So, get yourself to the local library. Check in Yellow Pages and business directories. If your chosen name appears to be available, then you must draw up a letterhead and state on your paperwork who any partners are, etc. It must be abundantly clear to the world just who is behind this business!

Can you protect the name? Difficult, but lodge a copy of your details with a solicitor and then if you face a legal battle they will at least have a date when you established your business name. In the UK you could also consider using the Business Names Register at www.anewbusiness.co.uk

Also, think long and hard about a business name from a marketing point of view. Your name will sum you up, either good or bad to your clients so choose carefully!

What about Taxation, National Insurance and VAT?

Big changes were made to the taxation system for the self-employed when self-assessment was introduced.

As soon as you become self-employed inform the local Inland Revenue office, which can be found in your local phone directory. Get hold of their booklet called "Thinking of working for yourself" number P/SE/1. This booklet has some good practical tips and the form that you fill out to inform the authorities (i.e., Tax, National Insurance, and VAT) that you are now of self-employed status.

Back in the days when you were employed, tax, etc. was taken care of by your employer. And remember you are about to undergo a big change in emphasis when it comes to payment of tax. It will no longer be deducted as you earn it,



Directory Enquiries

In the U.K. the phone directory enquiries service can be a useful way of finding out if a business name is in use or not.

If you say the name of the business but can't remember which town they are in they will perform a national search

Note the numbers, ring them. Ask them what they do and if it is the same type of business you are about to launch - change your proposed name and try again!

Self-assessment taxation

The best mail order business in the world.

Anon



under PAYE, you will need to set aside funds to pay tax and be ready for the bill when it arrives. National Insurance payments can be paid monthly but your tax liability will be retrospective – so be ready for it!

Taxation

In some respects the payment of tax isn't such a bad thing (seriously!), after all to have a tax liability does mean your business has made something; so whilst you grudgingly collect taxes via (VAT and PAYE) for the Government, console yourself with that thought. Businesses assist the Government in collecting tax through the Pay As You Earn (PAYE) and the VAT system. To understand the system properly you will need to get yourself a good accountant, and they will explain the workings of the Inland Revenue. They will also keep you up to date about current tax rates and allowances. For example, at the time of writing you can claim 50% of the cost of IT equipment for your business!

The tax year runs from the 6th of April in one year until the 5th of April in the following year. In business you are not obliged to run your year to coincide with these dates. Choose dates convenient to you and your business and try to have your year-end at a quiet time – oh yes, you will get them!

system will be influenced by the form of trading you will be operating as. So, a sole trader will be liable for all the tax due on the profit made by their business. Whereas in a partnership the profit is shared according to the split as defined in the partnership agreement (please draw one up – won't you!) and consequently so is the tax liability. Don't forget that your personal allowances will also influence, up or down, the amount of taxation due. You will be taxed on the total profits made by the business before you take your wages, (called 'drawings' in financial parlance)

Now we have mentioned one financial term "drawings", perhaps defining some others may be useful at this stage – so here goes!

"Capital" and "Revenue" expenditure and a bit on "depreciation"

In business expenditure is split as either capital or revenue expenditure. Capital expenditure covers the assets like office equipment, machinery, and vehicles. As these items need to be replaced every so often you can deduct depreciation from your profits. Depreciation cannot be claimed towards your taxable profits and you, your accountant and the Inland Revenue will agree on your depreciation figure – so, get a good accountant!



Free Courses

In the U.K. your local Inland Revenue office will run some FREE courses about.....

Self Assessment Tax

Setting up a Limited Company
Employing Staff

National Insurance

Find their number in your local phone book.

You have no excuse now!

However, your capital expenditure is allowed a capital allowance. For a figure of £100,000 or above spent in a year on assets that will last for over 25 years or more, different criteria applies. The rest of us (i.e., below 100K) should currently qualify for a 40% capital allowance against the first year.

N.B. Please check all figures and rates quoted with your local Inland Revenue office.

After your revenue expenditure and capital allowances are deducted from your income the balance is classed as your profit and subject to tax.

Revenue expenditure such as materials, overheads, wages for employees and allowable business expenses are deducted from income in order to arrive at net profit.

Self-assessment

There is a rigid timetable to follow under this system! Briefly it is as follows:

In April you will be sent your tax forms to either complete yourself or by your accountant. You can choose to return by the end of the following September, if you want the Inland Revenue to calculate your tax liability. Alternatively, you can send in your return by the following 31st of January, but you must also enclose a payment for what you have calculated that you owe in tax. If you choose the first option, then the taxman will tell you what you owe in time for you to make your payment on this magical (well, not quite!) date of the 31st of January. You then pay a further payment on July 31st against your next tax bill. Be warned miss this date and there are fines awaiting you!

Employees:

If you employ anyone under PAYE you deduct income tax and National Insurance from their earnings and forward this amount to the Government.

Corporation Tax

Should your business be a limited company registered with Companies House then it will pay Corporation Tax due on the calculated profit the business makes. The individual directors of the company pay tax under the PAYE system just like any other employees of a business. They also draw "dividends" - see you really do need an accountant!

Check the current rates of Corporation Tax, but at the time of writing, in the U.K, the first £10,000 of profit is tax free. Cough, cough, how about sole-traders Chancellor? Ah duck, here come some pink pigs!



How much tax will I pay?

At the time of writing* the following figures show how much money you may need to set aside to meet your tax and Class 4 National Insurance bill when it becomes due in the U.K.

Estimated Net Profit (£ per month)	Approx amount to set aside (£ per month)
500	19
700	71
1000	161
1200	221
2750	678

PLEASE REMEMBER - CORRECT LIABILITY CANNOT BE CALCULATED UNTIL A COMPLETED TAX RETURN IS FILED WITH THE U.K. INLAND REVENUE!

* 2004

National Insurance

The Inland Revenue and National Insurance Contributions have merged. Which confirms what we all knew of course – that NI is another form of taxation!

National Insurance contributions count towards the following benefits: pension, unemployment benefit and incapacity benefit. Payments are compulsory and can be topped up by voluntary payments. Like tax, there are fines for non-payment. It may be worth getting a pension forecast form from the NI and finding out just what your payment will be in the future.

You can come under one or more of the NI classes depending on whether you employ someone or not.

There are three classes of National Insurance that affect the self-employed.

Class 1 Contribution

Class 1 National Insurance relates to the employed and are paid by both the employer and employee. If you employ anyone you will be responsible for paying both contributions, deducting the employees contributions through the PAYE scheme.

Class 2 Contributions

Class 2 National Insurance is paid by all self-employed people, whether sole traders or partners.

This current rate is £2.10 a week. “Not bad”, I hear you shout. But wait – this is not the end of the story.

Class 4 Contributions

Class 4 National Insurance is also paid by the self-employed – but this one is based on your profits made above £4,895. See, it is another form of tax!

The current rate is 8%.

N.B. Please check all figures and rates quoted with your local Inland Revenue office.

Tax Inspector

A person that follows you into a revolving door but comes out ahead of you.

Colin Bowles



Value Added Tax (VAT)

VAT is taxed on most products or services – though not all, for example, education and training, and postal services are exempt. If items are taxable there are three rates:

- Standard (17.5%)
- Reduced (5%)
- Zero Rated (0%)

Exempt items are not the same as zero-rated items by the way. Good fun this one isn't it!

Your VAT payments are usually made each quarter to H M Customs and Excise. It's only necessary to register if business activities through your sales are taxable, and you must currently register for VAT if your annual turnover is over £60,000. Consider voluntary registration when you start up, because the VAT paid on purchases can be reclaimed. You can also reclaim VAT on capital equipment, materials, and stocks bought before registration, provided the Businesses with a turnover of less than £300,000 can submit one annual return, otherwise returns are submitted quarterly. If VAT registered you are expected to show your registration number on your invoices, etc.

There are many useful websites for tax and Budget information. Most of the main accountancy practices produce Budget Briefings that summarise the main points and implications of Budget Statements.

The address of your local Inland Revenue office, HM Customs and Excise office and Contributions Agency (to be known as the Inland Revenue (NI Contributions) Office following a transferral of duties) can be found in the telephone directory.

Employer's Helpline Tel: 0345 143 143

The Inland Revenue

Website: www.inlandrevenue.gov.uk

VAT HM Customs and Excise

Website: www.hmce.gov.uk



V.A.T

As a rough guide - if your business deals with the public then try to avoid having to charge VAT. You will in effect be putting your prices up by 17.5%

If you will be dealing with other businesses then VAT will probably not concern them too much.

Also bear in mind that you cannot wait till you reach that £60,000 figure - you need to assess the situation and if your sales turnover is steady at £1100 a week you will probably need to register.

What about business insurance?

Insurance is often an area where new businesses try to skimp and hope to save money and even don't bother to take out. Sadly, insurance is important but doesn't appear important until it is needed – by which time it is too late! Worse still, there are some forms of insurance that are required by law when starting or running a business. Let's look at these first. You may be surprised to learn that this does not include the one that everybody thinks is a legal requirement.

Motor Insurance – as soon as you start in business contact your motor insurance company. Not only is this cover required by law, you run the risk of invalidating your cover if you don't inform the insurance firm. Depending on your type of business activity, your premium may not alter. So, check with your insurers – now!

Employers' Liability Insurance – this is compulsory if you employ somebody with a contract of employment. You must have adequate cover against risks caused by their employment with you.

Public Liability Insurance – this covers your legal liability against injury or damage to third parties, or their property, as a result of the activities of your business, or due to negligence by one of your employees. Apparently, not required in law, in the U.K. Strange but true!

Product Liability – if you manufacture a product and a defect in your product causes injury or damage to third parties. This will cover you liability, etc.

Fire Insurance – you may need to cover business assets such as premises, stock or equipment.

Business interruption following fire – whilst a fire policy protects the business in the event of loss or damage to the assets, the time taken to replace equipment or stock, plus continuing overheads and loss of income etc, will adversely affect your trading.

Money – Money or Cash in Transit Policy can be arranged to cover cash in transit to or from the business premises or whilst on your premises.

Theft – cover the business equipment against loss by theft.

Fidelity – insurance against losses caused by dishonest employees.

Credit Insurance – cover against clients that fail to pay!

Goods in Transit – insuring stock or products against loss or damage whilst in transit.

Engineering Insurances – The Factories Acts require certain items of plant to be inspected by a "competent" engineer. This covers the danger to third parties by machinery.

Personal Accident and Sickness – insurance arranged for an employer on a personal basis, or Employee Schemes where the employer wishes to provide "fringe" benefits for the employees.

Professional Indemnity Insurance – if you give advice to customers and if there is a risk of that advice having a damaging effect on the business.

All of the above are required only because you are in business. But there is one more you need to consider that is very important and personal to you:

Permanent Health Insurance – self-employed people whose income would cease if they were unable to work should seriously consider this type of insurance. How would you survive if you fell ill?

What about the Data Protection Act?

Affects any business that will store personal data about people - you must register. Though if the information is to be used purely for your own marketing purposes, you could be exempt. But check with:

Office of the Data Protection Registrar
Wycliffe House
Water Lane
Wilmslow
Cheshire
SK9 5AF
Tel: 01625 545745
Website: www.dataprotection.gov.uk



Where to get business insurance?

Talk to your bank or an insurance broker and make sure you get adequate cover for your business.

The premiums can be paid by monthly installments to help your cash flow.

Plus the premium is a permitted business expense against tax.

Other questions answered in this section

What about Local Authority legislation and licences?

What about premises?

What about working from home?

What about business banking?

What about On-line Trading?

The complete e-book contents are

The Mind Game Stuff Essential Skills, Some Beasts to Avoid, Lifestyle, Why Businesses Fail Pitfalls to Avoid.

To Business Plan or not to Business Plan? Why bother to Write a Plan? Plan Contents. Example Business Plan.

The Money Bit Survival Income, Business Costs, Genghis Khan Projections, Sales Target, Funding Sources.

Research Questions to Ask, Where to Find Answers, Example of Market Research

The Marketing and Selling of You What is Marketing, Selling Skills, A Wee Bit of Psychology, Features and Benefits, Collected Tips.

Your Promotional Choices Letters, Quotes, Advertising, News Releases.

Running the Business Business Skills, Discounting Trap, Organisation, Paperwork, Expenses, Travel, What if it All Goes Wrong?

FAQ's Collection Answers to the Most Commonly Asked Questions by Start Ups.

And Finally The Top Tips from other Start Ups.

Start Up Checklist

Useful Web Links

Free Software

Survival Income - is an Excel Spreadsheet

Genghis Khan Projections - is an Excel spreadsheet

Cash Flow, Profit and Loss, Break-even, Spread sheets - 2 versions one for non VAT and U.K. VAT registered businesses. -is an Excel spreadsheet.

Outline Business Plan Template - is a Word document

To purchase the book “Going Self-Employed” [Click Here](#) at a very low price from Amazon!!

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