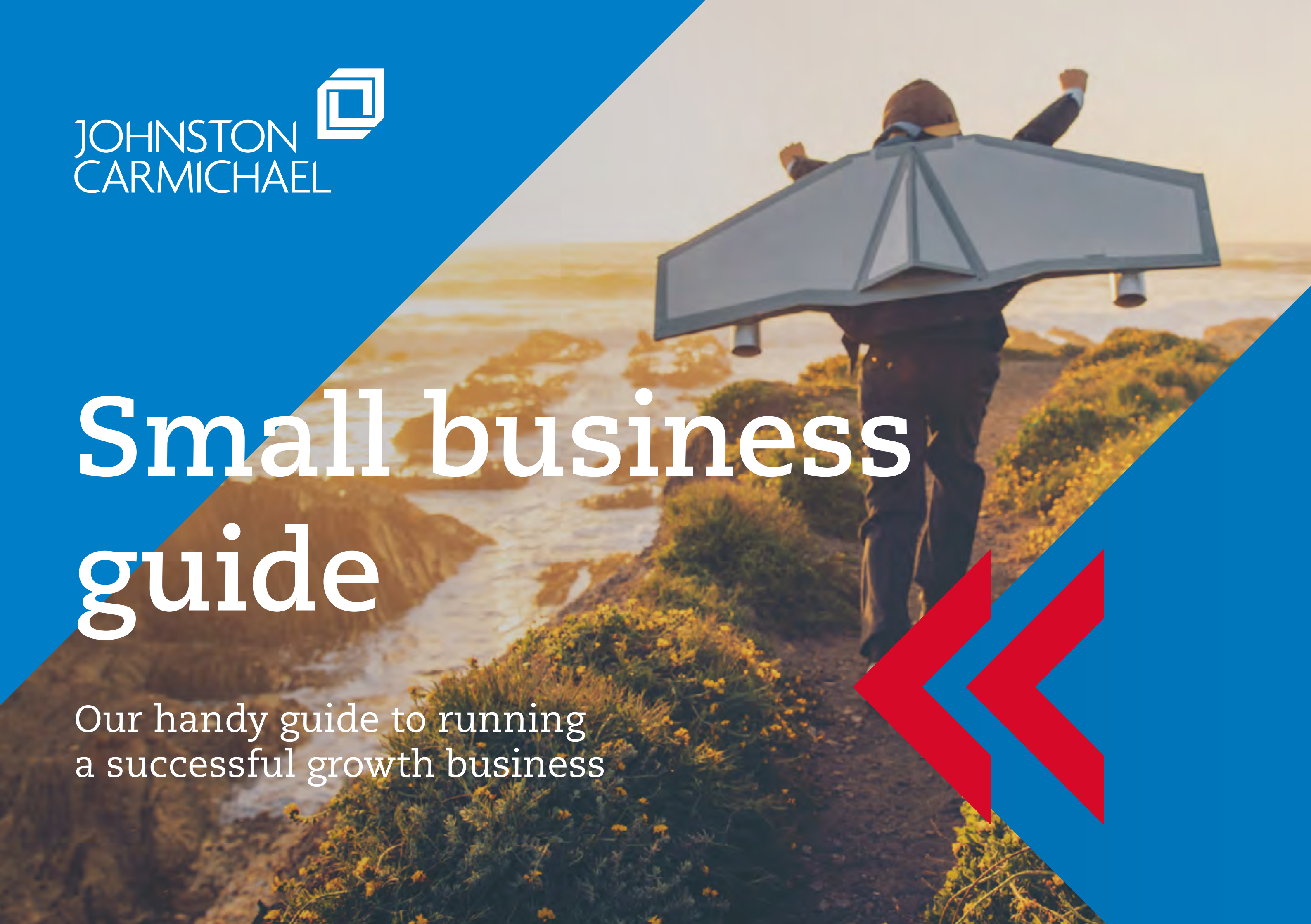
JOHNSTON CARMICHAEL



Small business guide

Our handy guide to running a successful growth business

About Johnston Carmichael

We are an independent accountancy and advisory firm, supporting growing businesses in a diverse range of sectors across the UK and internationally.

We support your interests both at home and around the world through our membership of Moore Global.

As a member of Moore, we're connected to a community of more than 30,000 professionals in 110 countries worldwide.

What we do

- Support the UK's most ambitious businesses, with over 19,000 clients.
- Provide deeply specialist insight and expertise across a diverse range of sectors.
- Work in partnership with our clients, our colleagues, and our communities to create an enduring impact in people's lives.

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Getting started

Starting your own business requires careful planning, research and preparation. This section will guide you on how to set up and register a company, and the steps that you need to take to turn your idea into a business.

What legal structure is right for your business?

Before you register for tax and start trading, deciding which legal structure is right for your business is key as this will determine your legal responsibilities. It's important to fully understand the different risks and benefits before you choose, seeking advice where necessary.

Whether you set up as a sole trader, limited company or partnership affects:

- The amount of financial risk you're taking on.
- The way you'll need to pay tax and report to HMRC and Companies House for limited companies and some types of partnership.
- How much control you have over how your business is run.

Company registration and filing requirements

To register your company, you'll need a company name, at least one director and at least one shareholder. You will then need to adhere to the requirements of incorporating a company in the UK.

All limited companies must have articles of association. These set the rules company officers must follow when running their companies. "Model" articles of association are the standard default articles a company can use. They are prescribed by the Companies Act 2006.

Filing requirements include:

- Annual Confirmation Statement
- Annual accounts
- CT 600 Corporation Tax return
- Annual self-assessment
- All of your income, not just that received from the company
- Real Time Information payroll submissions
- Quarterly VAT returns

Tax rules to consider

After setting up a limited company, as well as a director, people who become an employee of the company pay income tax (as any other staff member) through a scheme called Pay As Your Earn (PAYE).

The salaries of company directors are usually enhanced with dividends, which provides a tax advantage because you do not have to pay National Insurance on dividends.

Tax and National Insurance Contributions (NICs) are deducted via the company's payroll, which the employer must set up. The company must also pay employer's NICs for its staff. A company must legally have sufficient profits to cover dividend of payments.

You do not have to pay tax on all of your income. In tax terms, some income is labelled as 'taxable' – you have to pay tax on this income – and some is 'nontaxable', 'not taxable', 'exempt' or 'tax-free' – you do not have to pay tax on this income. Most people in the UK get a personal allowance of tax-free income, this is the amount of income you are allocated before you pay tax. The rate at which you pay income tax depends on the type of income that you receive and the tax rate applicable to your income during the tax year (which operates from 6 April to 5 April). Different rates of income tax apply to dividend income and non-dividend income. In addition, income tax rates and thresholds differ for Scottish residents compared to individuals who live in the rest of the UK. Scottish taxpayers are subject to the Scottish Rate of Income Tax (SRIT). SRIT is payable on non-savings and investment income (i.e. salaries, pensions, self-employed profits, property rental profits) with the UK tax rates and thresholds applying to savings and investment income.

Please visit www.gov.uk/browse/tax/income-tax for details of the current rates and thresholds for income tax.

Companies are liable to pay Corporation Tax on the company's taxable profits. Please visit www.gov.uk/corporation-tax for further details.

To register your company, you'll need a company name, at least one director, and at least one shareholder.

Ten steps to building a robust financial model

Creating a credible financial plan for your business can be an overwhelming task but it can help you make important decisions about the long term future of your business.

1. Understand the key elements

A good financial model will include a profit and loss account, cashflow statement and a balance sheet. It will cover a period suitable for the purpose of the model – typically three to five years, but it can be more.

2. Good presentation aids credibility

First impressions matter when presenting a financial model to investors and other funders. There are a number of templates and software options available. Your accountant will also be able to provide expertise.

3. Summarise your document

The underlying financial model can often be quite complex with a range of variables, so it is critical to provide an executive summary at the start to make your document as accessible as possible.

4. Set out your funding requirements

Be clear about your funding requirements, showing the amounts, timings and different sources of funding.

5. Include the detail

Demonstrate that you have worked to produce a thorough document by including the relevant details to support your overall funding plan.

6. Add some realism to the model

Financial models rarely turn out to be 100% accurate, but with so many uncertainties that is not a surprise. Build some contingencies into your model to allow for changes such as pricing or exchange rates.

7. Include some scenario planning

Where the business plan is not set in stone and there are different options e.g. pricing models for customers, then it would be appropriate to show how different scenarios impact on the overall financial model.

8. Choose the most appropriate software for producing the model

Financial models can be prepared using Excel or specialist forecast packages. You need to balance factors such as the cost, flexibility, presentation and reliability in choosing the right package.

9. Well considered assumptions

The underlying assumptions are key to the credibility of the model. They need to be specific and supportable. The model needs to be able to draw on experience and other external sources to support the assumptions. Broad sweeping statements are to be avoided.

10. Be prepared to talk about the model

Having prepared the model and sent it to the bank/investors or other funders, you will almost certainly be asked to present more formally and answer questions. Try to anticipate the questions that a funder may have and prepare your answers in advance.

Writing a business plan

A clear and well articulated business plan is key to not only raising finance further down the line, but helps to focus your mind on defining your business idea and long term objectives.

What to include in a well laid out business plan?

1. Executive summary

The executive summary highlights the most important points in the business plan. It may be written last but it is the first thing people will see. A good summary should include:

- A brief description of products and services.
- A summary of objectives.
- A solid description of the market.
- A high-level justification for viability (including a quick look at your competition and your competitive advantage).
- A snapshot of growth potential.
- An overview of funding requirements.

2. Business overview

Explain your business including:

- The background to the idea – any work carried out to date, relevant experience you have where it fits in your industry.
- Describe the industry covering any key features (changes in technology, regulations etc.) and where your business fits in. Ensure any statistics used are taken from a reliable source.
- Describe the proposed ownership structure of the business as well as what type of business it is and target customers.
- Explain your product or service with enough detail to show your competitive edge.

3. Sales and Marketing strategy

Defining your strategy will help you define your target market. Think about:

- Your overall market and projected market share.
- Any significant market trends and the reasons behind them.
- How you want to position yourself in the market.
- The market segments you are targeting and why.
- Who are the main competitors and why are you different?
- What is your pricing strategy?
- What are your distribution channels?
- How do you plan to promote your product/ service and using which channels?
- What is the potential for sales?

4. Management team

Provide pertinent, concise background information on all key players involved in the business.

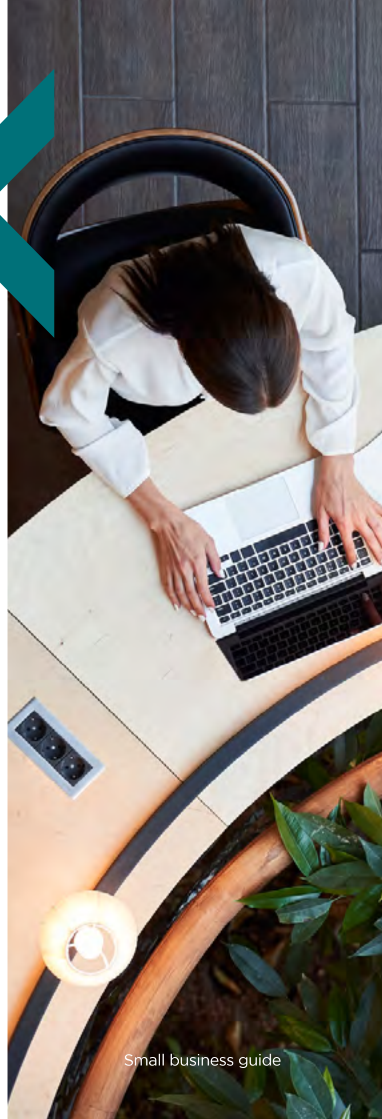
5. Operations

The organisational structure is a key part of the plan as it is often used as a basis for projecting salary costs and is critical to the formation of financial statements. List the employees you need to start the business and the relevant skills required.

6. Financial information

Now you need to translate what you have said about your business into numbers. Demonstrate how the business is currently performing as well as forecasted future performance showing how your management team have considered different scenarios.

Typically, the financial information required in the business plan includes a cashflow statement, profit and loss account, and a balance sheet.



Bookkeeping and accounting

With the right system in place, maintaining simple financial records doesn't have to be complicated. It simply involves detailing business income and expenditure from the outset and keeping accurate records.

As a small business you may decide that it is a better use of resources to find a suitably qualified bookkeeper or accountant to keep your records for you - especially if you don't feel confident enough to tackle it yourself. A good bookkeeper or accountant can ensure you keep the right records, stay on top of your finances, and gives you the time you need to get on with establishing and growing your business. They can also help you avoid potentially expensive mistakes!

If you decide to do the bookkeeping yourself you will need to:

- Keep your cash purchase receipts and invoices for all business expenditure such as utility bills, bank and credit card statements.
- Fill out paying-in books and cheque book stubs; maintain payroll records (if you employ people).
- Keep VAT records (if you are registered).

Key accounting tasks checklist:

Have you got the key accounting tasks covered?

Processing tasks – to keep on top of the records	
Posting sales and purchase invoices	
Reconciling the bank account	
Following up with debtors	
Running the payroll	
Paying suppliers	

Reporting – to understand your performance	
Regular management accounts	
Cashflow forecasts and budget comparison	
Submitting VAT returns	
Annual accounts preparation	
Filing the tax return and claiming reliefs	

What are the benefits of using online accounting software?

Many businesses these days see the benefits from adopting online accountancy software. Key benefits include:

- **Ease of use** - making accounting information accessible and understandable.
- **Flexibility** - information can be accessed at any time.
- **Low cost monthly pricing** - with no long-term contracts and no user number restrictions.
- **Reduction in administrative time** - less data inputting.

The overriding key benefit is a more cohesive and collaborative relationship with your accountancy advisers who are able to view, discuss and work on the accounting information at the same time as you. This is highly beneficial during key tasks such as end of year tax planning.

At Johnston Carmichael we recommend Xero, the accountancy world's leading online software provider. A significant number of our clients use Xero, and having carried out a detailed review, we consider this to be the best all round package for small to medium sized businesses.

Payroll

Running your payroll is one of the most significant operations for businesses. Not only are you required to keep abreast with new legislation, but the resulting administration can be challenging.

VAT registration and compliance

VAT legislation is complex, therefore it is important to identify VAT planning opportunities and ensure that all VAT compliance matters are dealt with. It is important to consider VAT even for small or start-up businesses as voluntary registration may be beneficial, or there may be a VAT accounting scheme that would ease the burden of VAT registration.

Record keeping

Regardless of what structure you have chosen for your business, it is essential to keep accurate records. These ensure that you know what is happening within the business and are the foundation for year-end accounts, VAT returns and tax returns. Companies House (for companies and LLPs) and HMRC can choose to inspect your business records at any time and penalties for failing to meet requirements can be high.

What records do I need to keep?

HMRC requires you to keep an extensive set of records; the detail and length of time that documents are required to be kept depends on whether they relate to Corporation Tax, VAT or PAYE.

Corporation Tax

Sales invoices, purchase invoices/receipts and bank statements are typically required, evidencing income, expenses, assets and liabilities. These must be retained for six years from the end of your accounting period. Failure to do this could result in a penalty based on a percentage of the extra tax due.

VAT

VAT registered businesses must keep records of sales and purchases to support filed VAT returns, demonstrate that they have issued correct VAT invoices, and must also keep a separate summary of VAT called a 'VAT account'. The VAT account will usually be part of the overall accounting records, whether maintained in software or in spreadsheets.

Like Corporation Tax records, VAT records must be retained for at least six years – this is extended to ten years if using the VAT MOSS service.

PAYE

An employer operating Pay As You Earn (PAYE) must keep detailed records to satisfy HMRC that the business and its employees are paying the correct amount of tax and National Insurance, providing statutory pay in line with entitlement and ultimately, meeting legal requirements. The records that must be kept are:

- Payments made to employees
- Deductions (e.g. tax, NIC, student loans)
- Statutory sick pay (including selfcertification forms and fit-notes from doctors)
- Statutory maternity, paternity and adoption pay
- Holiday entitlement calculations

PAYE records must be kept for a minimum of three years after the tax year to which they relate. HMRC has created a guide to PAYE record keeping which gives full details.

Housekeeping

HMRC allows records to be kept on paper or electronically but the key requirements are that records are accurate, complete and readable. In the event of an inspection, it helps if there is a clear flow from the figure in the records to the supporting documentation. It is therefore important to establish a filing system where records can be easily and efficiently accessed.

This can be paper-based with a file of sequentially numbered invoices, with the number on the paper invoice included as a reference on the related transaction in the accounting records. Alternatively, accounting software can allow a scanned copy of the invoice to be saved in the software, attached to the relevant posting, with the possibility of "paper-less" records.

The choice of paper-based or electronic records can be influenced by practical considerations like storage space, whether work is all done in a single office, and liaison with external advisers. Many businesses find that electronic records offer greater flexibility.

VAT records must be retained for at least six years.

Tips for managing cashflow

Businesses can run at a loss year after year but can only run out of cash once! It is therefore imperative that cashflow is continually monitored so that your projected 'cash-out date' is known and funding plans can be based around that.

1. Commit time to understand your cashflow

There is no substitute for setting a regular amount of time aside to keep on top of your cash position. Depending on the cash requirements of the business this could be as much as a daily routine.

2. Working well with your customers

Getting the cash in from your customers is critical to your success and taking steps to avoid delays is essential. This can include:

- Setting clear payment terms at the outset
- Being accurate in the invoicing (amounts, references)
- Making payment straightforward (bank details/online portal etc.)
- Using incentives to encourage faster payment

3. Agree payment terms with your suppliers

When you are negotiating new contracts with suppliers, include the payment terms as part of the process. This way you can ensure there is no confusion. It can also potentially improve your working capital position.

4. Using software to help monitor the position

There are a large number of cost effective tools available to help record your cash inflows and outflows and predict future tight points. These can include the simple Excel spreadsheet through to web based products that link with your bank/accounting software and avoid re-keying information.

5. When things get difficult, the steps to take

When you can see your cash position getting difficult in the weeks and months ahead, it is important to build in contingency plans for the unexpected. This can take the form of a number of actions such as:

- Preparing daily cashflow forecasts
- Looking at any surplus costs that can be cut without too much impact
- Speaking to the bank for potential support
- Having early discussions with HMRC about any PAYE/VAT liabilities
- Being upfront with your Board or investors

Top five tax reliefs for SMEs

Companies come in all shapes and sizes and are at different stages of their lifecycles. However, there are some reliefs and exemptions that all SMEs should have in their sights as they can be greatly beneficial.

1. Business Asset Disposal Relief (BADR)

Previously known as Entrepreneurs' Relief.

The lifetime limit for BADR is £1m.

Tax savings for BADR is now £180,000.

2. Tax incentives for investors - IR, EIS and SEIS

The Enterprise Investment Scheme (EIS) encourages individuals to invest in unquoted trading companies to help them to raise capital. This investment enables you to take advantage of a variety of tax incentives in the form of both income tax reliefs and Capital Gains Tax reliefs. The Seed Enterprise Investment Scheme (SEIS), introduced from 6 April 2012, is a junior version of the EIS. It aims to support the smallest early stage companies in raising capital by offering investors a similar package of tax reliefs. Investors Relief (IR) aims to provide an incentive for external investors to invest in unlisted trading companies over the medium to long term. IR reduces the rate of Capital Gains Tax on the sale of shares from 20% to 10% for investors who subscribe for shares. The maximum lifetime limit for the relief is £10 million – meaning that each individual can make tax savings of up to £1 million.

3. Employee Share Incentives

Looking for long-term loyalty? Engage key staff by offering an Employee Share Incentive scheme. Many privately owned companies have key employees they would like to retain longer term. A powerful motivator is an employee share incentive scheme.

4. Innovation reliefs and incentives

Government-backed innovation reliefs and incentives such as Research & Development (R&D) and Patent Box can provide UK businesses of all sizes with significant cash savings and incentives for funding further innovative activities. Innovative businesses can use these Government sponsored incentives as part of their broader tax strategy to manage their tax position and help ensure optimum value is obtained from their innovative activity.

5. Capital Allowances

Our experience shows that a large proportion of businesses and property investors do not claim their full entitlement of Capital Allowances. Capital Allowances is a complex area of the UK tax system but one which offers valuable tax relief on qualifying capital expenditure, both on commercial property and renewable energy projects, plant and machinery.

Johnston Carmichael have qualified surveying and construction professionals who specialise in this area.

Where sharp minds meet

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