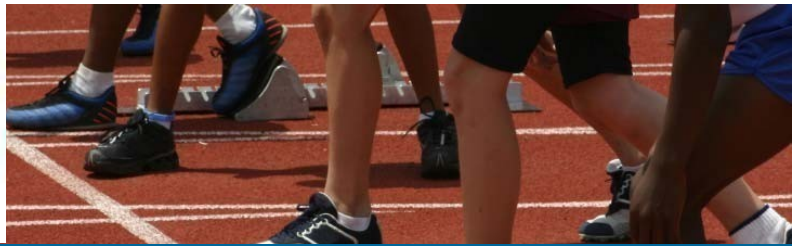




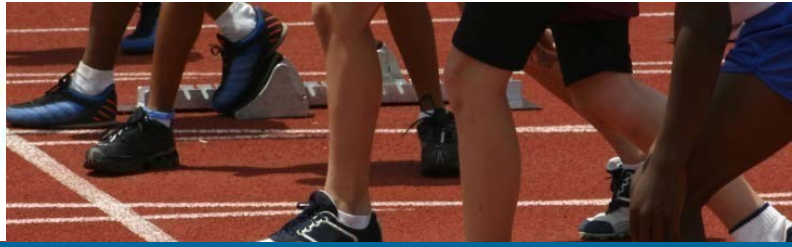
**Guide to starting in
BUSINESS**





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The Right Structure for Me - Sole Trader

Sole Trader

A sole trader means self-employed status by operating your own business in your chosen name.

You will be required to:

- Keep accounting records.
- Register as self employed with HMRC (within three months of commencement).
- Pay National Insurance – Class 2 NIC for 2011/12 £2.50 per week.
- Prepare accounts in order that these can be taken into account when you submit your annual tax return.

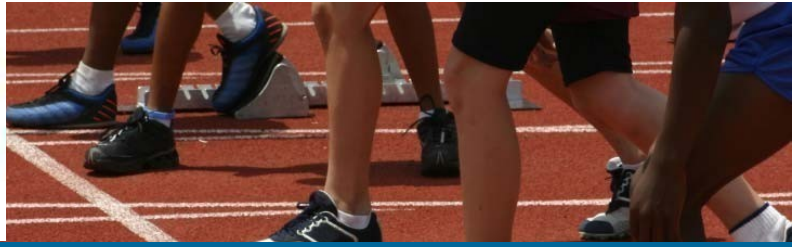
For 2011/12 tax is payable at 20% on earnings from £7,475 up to £35,000 and 40% on your earnings above £35,000. Profits over £150,000 are taxed at 50%. (Your personal allowance is £7,475). Class 4 National Insurance is also payable at 9% on profits between £7,225 and £42,475 and 2% on profits over £42,475.

The benefits of trading as a Sole Trader:

- Less red tape and administration involved in operating as a Sole Trader in comparison to a Limited company.
- Lower accounting fees as accounts do not have to be submitted to Companies House or follow a statutory format.
- Privacy of earnings. No accounts need to be submitted to a public record.
- You keep the profits.

The drawbacks of trading as a Sole Trader:

- Tax is payable on all earnings at your highest rate of tax whether you have drawn the money from the business or not.
- As a sole trader you are personally responsible for any debts of the business.



The Right Structure for Me - Partnership

Partnership

A Partnership exists when two or more people are in business sharing the profits, risks and responsibilities. Each partner is self-employed and takes a share of the profits or losses.

The requirements are similar to that of a Sole Trader, however the partnership must also register with HMRC and must submit an annual partnership tax return.

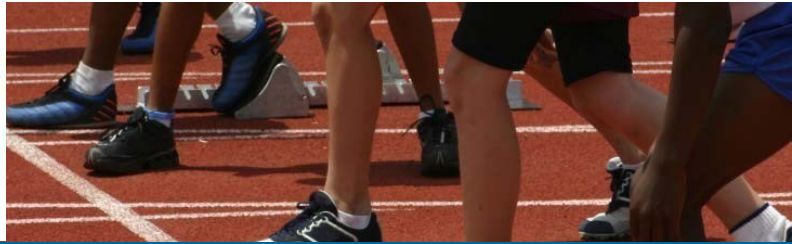
The benefits of trading as a Partnership:

Are the same as a Sole Trader, additionally:

- Each partner takes a share of the profits.
- Problems are shared.
- Other partners are there to cover for holidays, sickness etc.

The drawbacks of trading as a Partnership:

- The partners do not enjoy any protection if the business fails.
- Each partner is jointly and severally liable for the debts owed by the partnership (and so are equally responsible for paying off the whole debt).



The Right Structure for Me - Limited Company

Limited Company

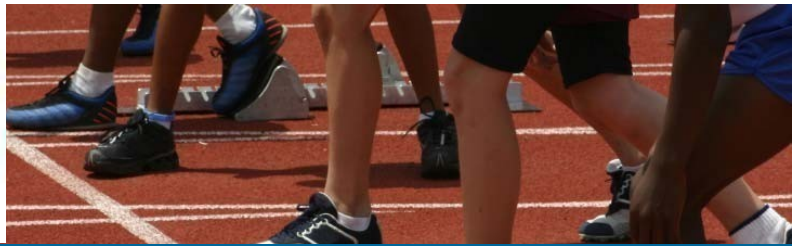
- A Limited company exists in its own right and is a separate legal entity. The finances of a company are distinctly separate to those of its shareholders.
- A company has shareholders and a minimum of one director. In a small company, the director is often the sole shareholder.
- The company must have a registered office address, which is shown on the public record.
- The company enters into contracts, not the shareholder or director and it is the company that is responsible for its own debts. What this means in practice is that if the company gets into difficulties and becomes insolvent you shouldn't lose your personal assets.
- Companies and Directors do, however, have responsibilities laid down in the Companies Act and must ensure the rules are adhered to.
- A limited company is subject to corporation tax on its profits for the year.
- A payroll scheme must be operated for all employees including the directors. This includes a yearly submission of end of year payroll returns and a declaration of benefits.
- Accounts must be prepared for each accounting period, usually twelve months, and these must be submitted to Companies House and HMRC together with a company tax return.
- An annual return must be completed yearly and submitted to Companies House. A minimal fee is charged for this by Companies House.

The benefits with operating a Limited Company:

- Personal savings can be achieved by the tax efficient extraction of profits in the form of a low salary, repayment of expenses and dividends.
- Limited liability can ensure that personal assets are safeguarded should the company suffer financial difficulties.

The drawbacks with operating a Limited Company:

- Red tape, burden of annual reporting to HMRC and Companies House, fines if deadlines are missed.
- Accounting records must be kept for six years.
- Annual statutory accounts must be prepared at your financial year-end.
- An audit may be required where turnover is over £5.6million.



Limited Companies - the paperwork...

When a company is formed at Companies House the director will be issued with a Memorandum and Articles of Association and a certification of incorporation.

The certificate of incorporation will be required by the bank before they can open a company bank account. The certificate should be retained with the statutory books for future safekeeping.

The company will be required to maintain statutory books, which should be kept safely until the company ceases. These contain the share certificates and a register of members, directors and shareholders of the company.

Share capital will be issued in accordance to your requirements. This is relevant for dividend distribution decisions and control of the company.

The director(s) must notify Companies House of any future changes in their home address.

Accounting records must be maintained and kept up to date. As accountants, we can recommend a suitable system.

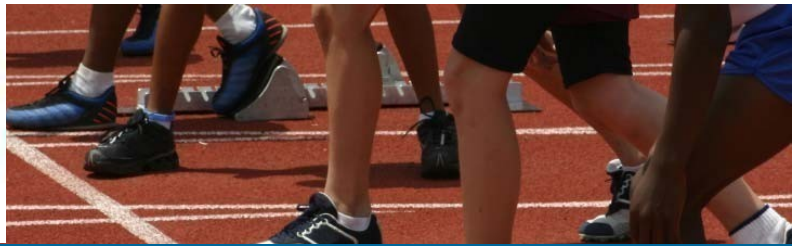
The company's bank statements, sales invoices and purchase invoices must all be suitably recorded and filed to evidence transactions.

Tax and National Insurance must be paid over monthly or quarterly on salary deductions and P60's should be prepared annually. As accountants, we can offer payroll services and take care of this paperwork.

P11d forms must be completed annually when any benefit in kind has arisen in the year (for example use of a company car). Certain expenses that have been reimbursed by the company to you must also be disclosed.

Annual accounts will be prepared from your records. These will need to be signed by at least one director. These are submitted each year to HMRC together with a company tax return CT600.

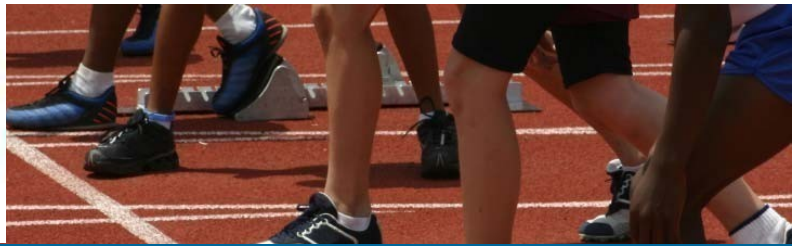
Abbreviated accounts will also be prepared for submission to Companies House for the public record. The abbreviated accounts do not show the turnover or expenses of the company and disclose the minimum details required under law.



Limited Companies - the paperwork... (ctd.)

Once a year at the anniversary of the incorporation of your company, Companies House will issue an annual return, which is a summary of the officers of the company, shareholders' details and registered office. This must be either completed online at a cost of £14 or request a paper return that must be signed and returned at a higher cost. Failure to complete this form could lead to the company being struck off.

Your stationery must contain the registered office address, company registration number and the country where the company was incorporated, usually England & Wales. This must also be shown on the company website.



Limited Company - Corporation Tax

A Limited company will pay corporation tax on its net profits for the year. The rate from 1st April 2011 is 20%. Payment will be due 9 months and 1 day after the company's financial year-end.

Example

Mr Jones is the director and sole shareholder of ABC Limited. He is the only employee of ABC Limited. The company has sales of £96,000.

ABC Limited

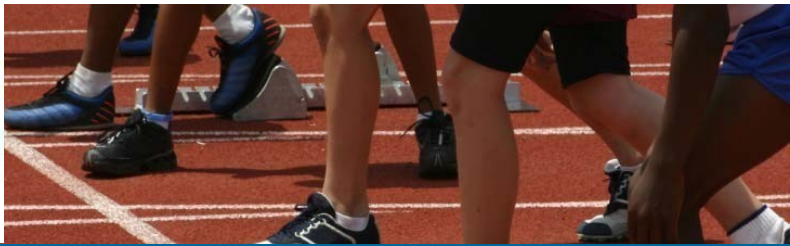
Accounts for the year ended 31/3/XX

	£	£
Sales		96,000
<i>Less:</i>		
Purchases		(3,165)

Gross Profit		92,835
<i>Less Expenses:</i>		
Salary	7,065	
Wages & Employers NI contributions	328	
Travel expenses	1,105	
Stationery	150	
Computer consumables	149	
Advertising	1,900	
Telephone	286	
Accountancy	900	
Company Pension	1,800	

		(13,683)

Net Profit		79,152
		=====



Limited Company - Corporation Tax (ctd.)

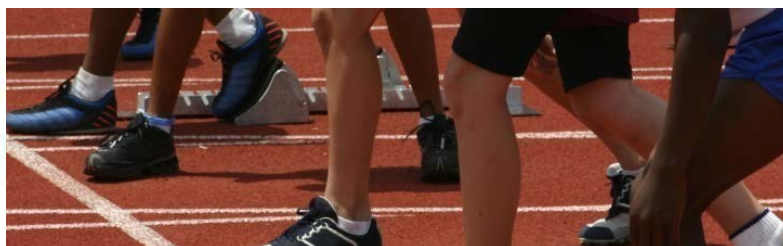
In the above example the profit of £79,152 will be chargeable to corporation tax at 20%

Corporation tax of £15,830.40 will be due.

No Tax & NI contributions are payable on Mr Jones's salary, as it is below the tax threshold.

Net Profit	79,152
Corporation Tax due	(15,830)

Profit after tax available for distribution	£63,322
	=====



Profit Extraction

Mr Jones could be remunerated as follows:

(For both scenarios, we will ignore the tax free expenses repaid to the director for travelling and the benefit the director will receive for the company contribution into his pension scheme).

Scenario (1) Low personal tax

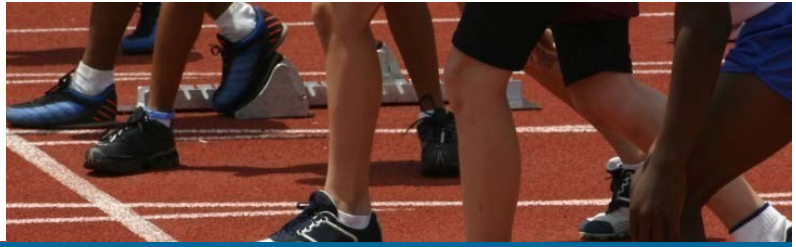
	Gross Per Annum	(Net take home) Monthly
Salary from the company	7,065	588.75
Dividends	35,000	2,625
	-----	-----
	42,065	3,213.75

Subject to Mr Jones not having any other taxable income in the tax year, no further tax would be payable on this remuneration package. This would leave £24,757 of reserves in the company to be extracted in future years or leave for investment purposes.

Scenario (2) Extraction of all available funds from the company

	Per annum	Monthly
Salary from the company	7,065	588.75
Dividends (Gross £70,358)	63,322	5,276.83
	-----	-----
	70,387	5,865.58

Mr Jones would have a personal tax bill, subject to no other taxable income aside from that above of £7,925. This is due on 31st January after the tax year in which the dividends have been drawn.



Profit Extraction (ctd.)

Once Mr Jones becomes a higher rate tax payer, dividends are taxed at 25% of the net amount of the dividend drawn over the basic rate threshold. For 2011/12 the total gross income Mr Jones could earn before paying higher rate tax is £42,475.

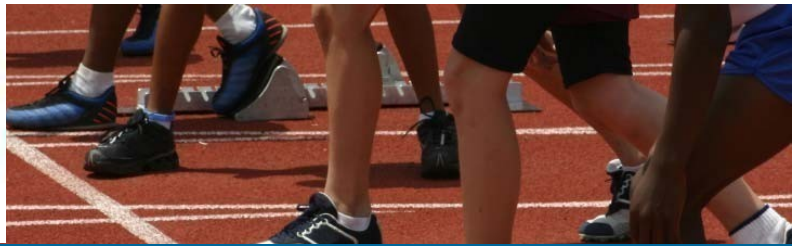
All dividends carry a notional 10% tax credit.

To calculate the gross dividend from the net dividend withdrawn, multiply the net amount by 1.1111 or alternatively to identify the net dividend from the gross, multiply the gross dividend by 90%.

Mr Jones's basic rate tax band after deducting his salary is £35,000. (This is the gross amount of the dividend). The net amount (multiplied by 90% is therefore £31,500 – see example 1).

Dividends

- Dividends are a distribution of the company profits and do not affect the amount of corporation tax payable.
- Provided the company is trading profitably and retained profits are available, dividends may be declared at any time during the company's financial year.
- Dividends are paid to shareholders in proportion to their shareholding.
- It is necessary to hold a directors meeting and complete minutes and a tax voucher each time a dividend is declared.
- Dividends are received by shareholders with a "tax credit", so there is no additional tax to pay unless your total taxable income (salary, dividends, interest, rental income, etc) exceeds the basic rate threshold.



Sole Trader Tax Situation

Mr Smith is a sole trader operating as A & B Architects. The business has sales of £96,000. He contributes £1,800 to a personal pension scheme. Profits are similar to that of the limited company for comparison purposes.

Accounts for the year ended 31/3/XX

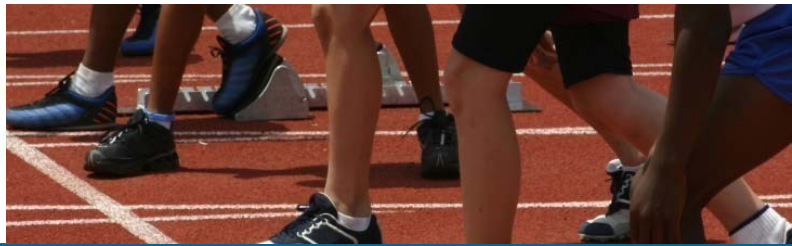
	£	£
Sales		96,000
<i>Less:</i>		
Purchases		(3,165)

Gross Profit		92,835
<i>Less Expenses:</i>		
Travel expenses	1,105	
Stationery	150	
Computer consumables	149	
Advertising	1,900	
Telephone	286	
Accountancy	900	

		(4,490)

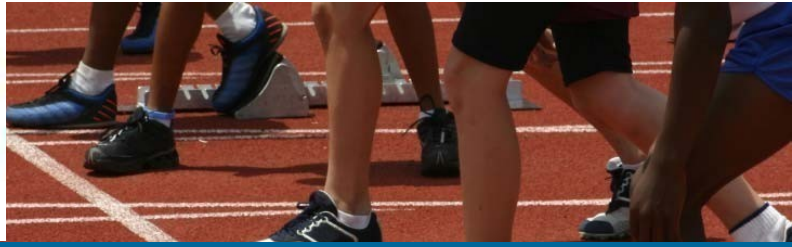
Net Profit		88,345
		=====

Mr Smith will pay income tax on the above profits of £25,348 and class 4 NI of £4,327.55
A total amount of income tax & NI contributions of £29,675.55



Tax comparison – Sole trader v Limited company

	Mr Jones Limited Company (Only shareholder)	Mr Smith Sole trader	Difference
Tax payable			
Corporation Tax	15,830	N/A	
Tax & NI on salary	NIL	N/A	
Personal Tax	7,956	29,676	
	-----	-----	-----
Total	23,768	29,676	5,890
	-----	-----	-----
Net Remuneration			
Salary	7,065	N/A	
Net dividends	63,322	N/A	
Profits/drawings (less pension)	N/A	86,545	
Less personal tax	(7,628)	(29,676)	
	-----	-----	-----
Total “net remuneration”	62,759	56,869	5,890
	-----	-----	-----

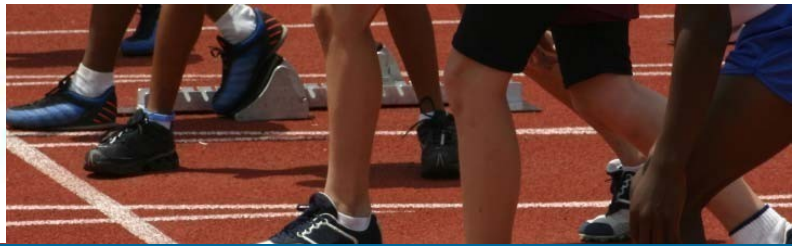


Value Added Tax (VAT)

- VAT is administered by HMRC.
- All businesses making taxable supplies must compulsorily register for VAT once their taxable turnover is expected to reach the level of £73,000 (2011/12 rates) in a twelve month period. Early registration of VAT is encouraged.
- The standard rate of VAT to be applied to your net sales is 20%. There are also zero rated taxable supplies and exempt supplies. You can recover VAT on certain purchases you make for the business such as computer equipment, accountancy fees, telephone etc as long as you have a supporting invoice showing the VAT number.
- Your Vat number must be shown on all your sales invoices.
- You will receive a quarterly VAT 100 return, which should be completed with the declaration of the previous three months sales, purchases, output vat and input vat. VAT must be paid over and the form returned before the last day of the month following the VAT quarter.
- A Flat Rate VAT scheme is available for businesses with a turnover of no more than £150,000. This scheme allows you to pay over a lower rate of VAT than you have actually charged your customer and in return you cannot generally reclaim VAT on purchases.
- The Flat Rate scheme gives you a VAT rate, which is applicable to your industry.

Flat Rate Percentage examples are as follows:

- Computer & IT Consultancy 14.5%
- Management Consultancy 14%



Value Added Tax (VAT) – (ctd.)

An example of how this works is as follows:

ABC Limited are in the industry of providing management consultancy. The rate for their industry is 14%

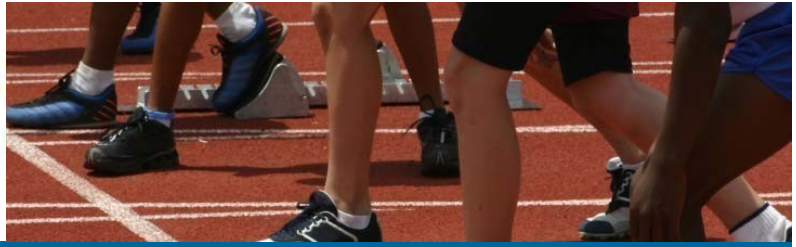
Invoice to customer	Net	£2000
Vat charged to customer	20%	£400

Funds received		£2,400

VAT to be paid over using the Flat Rate scheme:

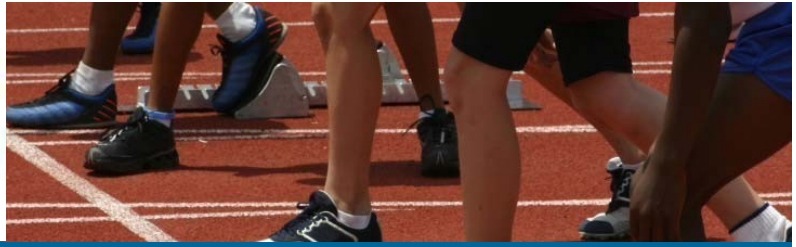
Gross invoice x 14% ~ £2,400 x 14% = £336 VAT to be paid over to HMRC.

ABC Limited retains £64 in the above example which is treated as additional sales.



PAYE and National Insurance

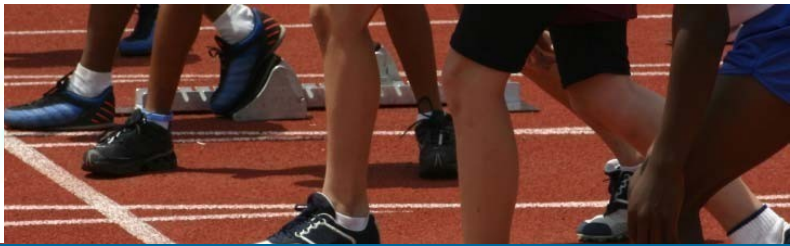
- If the business has employees (for this purpose directors are employees), then it will need to set up a payroll scheme with HMRC.
- As a director of your own limited company, you will need to pay yourself a salary. The amount of this salary is up to you however consider the minimum wage legislation when setting this level. As a sole trader, you do not pay yourself a wage as you take drawings, however you must operate a payroll scheme if you employ any staff. As accountants we can offer a payroll service.
- Contributions are payable either monthly or quarterly depending on the amount of tax & NI due.



What expenses can I put through the business?

Expenses that are incurred wholly and exclusively for the purposes of the trade. Some examples of these expenses are:

- Goods for resale
- Company formation fees *(Not allowed as a deduction for tax purposes)*
- Accountancy fees
- Business travel and accommodation
- Stationery for the business
- Postage for the business
- Mobile telephone costs *(In the case of a limited company, the telephone contract should be in the company name, not that of the director)*
- Salaries
- Contributions to a pension plan for employees or directors
- Employers National Insurance contributions
- Business entertainment *(Not allowed as a deduction for tax purposes)*
- Equipment purchased for the business
- Professional subscriptions
- Course fees if relevant
- Mileage at the authorised mileage rates *(where a director or employee uses his own car)*
- Technical books and journals
- Computer software and consumables
- Company bank charges and interest
- Rent, rates, heat and light for business premises
- Child care costs up to £243 per month



Personal Tax

- Personal tax is payable on your income for the year, however some of your tax will have been deducted at source such as on bank interest and your salary.
- If you are in business as a sole trader, partner or director, it is compulsory to complete a self assessment tax return each year.
- The tax year runs from 6th April until the following 5th April.
- The payment of tax if any is due will be on the following 31st January after the tax year ended 5th April.
- Should you have a tax liability in any tax year when the tax has not been collected at source, HMRC will ask you to make payments on account of tax for the following year based on your tax bill for the previous year.

This is payable 50% on 31st January and 50% on 31st July.

For example

Mr Jones has taxable income of £76,657.

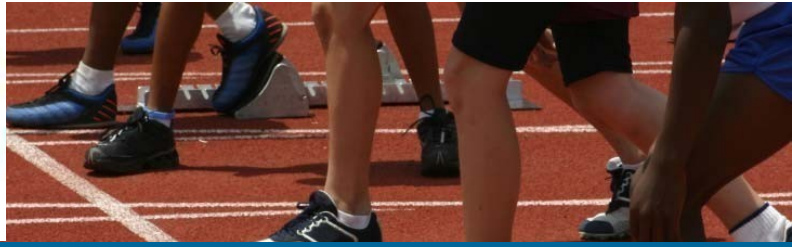
His personal tax bill for the year is £7,925 which will be due on the following 31st January

He must also pay tax on account for the following year:

50% of £7,925 = £3,963 also due on 31st January.

£3,963 will due on the following 31st July

- De minimis rates apply so that no payments on account are needed if outstanding tax is less than £1000 or if more than 80% of the total liability has been deducted at source.



Important Dates

Limited Company

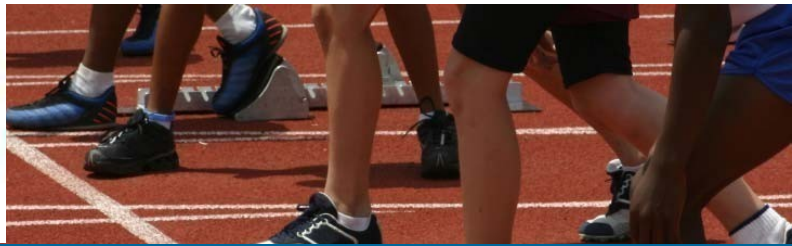
- Annual accounts to be filed within nine months after the company's financial year-end.
- Company's annual return – anniversary of the company's incorporation.
- Corporation tax is payable within nine months and one day after the company's financial year-end.

Limited Companies, Sole Traders and Partnerships

- PAYE annual returns – 19th May
- P11d declaration of benefits in kind – 6th July

You personally

- Personal tax year end is 5th April.
- Self Assessment tax return due by 31st January after the tax year end.



About Warr & Co

Warr & Co is an five-partner firm of Chartered Accountants with offices in London and Stockport, Cheshire providing accountancy, tax and financial services for our nationwide client base.

How we can help you...

Our accountancy and tax departments offer

Accountancy

Payroll

Corporate tax

Personal tax

Tax planning

VAT

Book-keeping advice

Software advice

Forecasting and budgeting

Contact us

Visit our website <http://www.warr.co.uk> - Email info@warr.co.uk - Or Call us on 0161 477 6789

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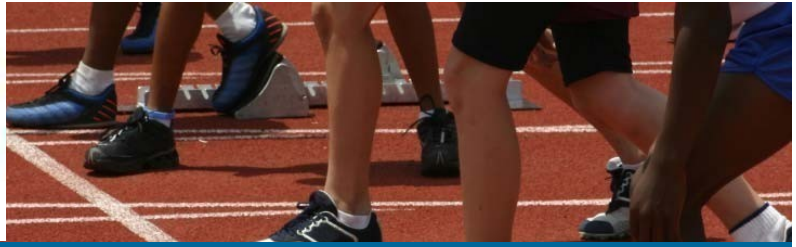
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We will be happy to offer specific advice to clients when requested.