



Business start-ups

S·I·P·H·E·R
ACCOUNTING & TAX

Business start-up guide

Fortunately it is really simple to start a business in UK. All you need is an idea and a vehicle such as a Limited company or a sole-tradership. Our business start-up guide will deal with both kind of business vehicles.

Starting as a sole trader

If you have decided to operate as a sole trader, you are required to register your business with HMRC as soon as possible. This is to ensure that you are paying the Class 2 national insurance and your tax affairs are in order.

The consequences of not registering could result in fines and penalties from HMRC.

Upon joining we will register you for Self Assessment on request. Once registered, you will receive a copy of your Unique Tax Payer (UTR) number in the post. This normally takes couple of weeks.

Naming the business

You can use your own name or trade under a business name. When choosing a business name please make sure you do not:

- use the terms 'Limited,' 'Ltd', 'public limited company,' 'plc,' 'limited liability partnership,'
- 'LLP' or their Welsh equivalents;
- use sensitive names unless you have permission;
- suggest an association with government or local authorities;
- use a name that is too similar to a registered trademark or an existing business in the same area or sector.

You must include your own name and business name (if you have one) on any official paperwork, like invoices and letters.

Business bank accounts

If you are trading in your own name then it may be possible to receive and pay for invoices under your private bank account however we do recommend our clients to have a separate business bank account to identify business transactions.

Sipher Accounting & Tax can offer some advice on business bank accounts so please contact us for more information.

Starting as a Limited company

A limited company is a type of business structure that has been incorporated at Companies House as a legal 'person'. It is completely separate from its owners, it can enter into contracts in its own name and is responsible for its own actions, finances and liabilities. The owners of a company are protected by 'limited liability', which means they are only responsible for business debts up to the value of their investments.

Sipher Accounting & Tax only deals with companies which are 'limited by shares'. Limited by shares companies are owned by one or more shareholders and managed by one or more directors. The same person can be the owner and director, so you can set up a company by yourself or with other people.

Limited company names

Your new limited company should have a unique name. We recommend that you choose a name by visiting Companies House Company name availability checker at <https://beta.companieshouse.gov.uk/company-name-availability>.

Business bank accounts

A Limited Company should operate from its own bank account. If Sipher Accounting & Tax is forming a limited company for you then we will refer you to a UK bank who will call you in a few days after your company is formed. However it is your choice to either go with our recommendation or choose your own bank.

PAYE registration

If you wish to hire employees for your newly formed business, you must be PAYE registered before you can operate a PAYE scheme. Income tax and NICs from your employees will need to be deducted at source and paid to HMRC. Sipher Accounting & Tax can apply for your PAYE registration free of charge.

Upon receiving the PAYE registration you should be able to:

- Pay salaries to your staff;
- Deduct tax and national insurance on their behalf;
- Pay the PAYE due over to HMRC;
- Issue P45/P60's as and when required;
- File P11d or P11d(b) on your employees behalf.

Under the new RTI rules, running a payroll is a strict business and you have to report to HMRC who you paying and when you paying them. At Sipher Accounting & Tax we can offer you confidential PAYE services. Our software is RTI accredited and we will make sure that we run your payroll and send you the payslips before you are required to pay your employees. Please contact us for a quote.

Value Added Tax (VAT) registration

VAT is the most difficult tax of all but rest assured you are in good hands at Sipher Accounting & Tax.

It is compulsory for a UK business making taxable supplies to be VAT registered if:

- the actual turnover of the business in the previous 12 months is over £85,000; or
- the turnover in next 30 days will be over £85,000.

If your turnover is below £85,000 and you would like to be VAT registered then you can apply for voluntary VAT registration. Under the voluntary VAT registration you can choose the date you would like to be VAT registered from.

Once you are VAT registered you will be required by law to add 20% VAT to your invoices.

The additional VAT amount is not part of your income and has to be paid back to HMRC via filing of quarterly VAT returns. As a UK VAT registered business, all invoices raised should bear the business registration number. It is an unlawful act to collect VAT if the business is not VAT registered and could be deemed a criminal offence.

Upon joining Sipher Accounting & Tax, under the voluntary scheme, your designated accountant will ask you to provide a suitable date for VAT registration. We can make some recommendations but generally it can take upto 8 weeks to get VAT registered.

Sipher Accounting & Tax will recommend a VAT scheme once an evaluation of your business status, structure and trade has been undertaken. The most popular scheme is the Flat Rate Scheme (FRS). Please contact us to review your expenses to find out if you can or cannot apply for FRS.

Upon joining us we will be happy to prepare your quarterly VAT returns and file them with HMRC. The VAT return should be filed and the VAT payment should reach HMRC by 7th day following the end of the VAT quarter. For instance, if your VAT quarter ends 30th June, the deadline for VAT submission and payment to HMRC is the 7th August.

It is always advisable to ensure VAT filings and payments are made before deadline as there are various fines and penalties which could be incurred.

Insurance

Once operating your own business, there are different types of business insurance which must be considered as follows:

- **Employer's liability insurance**

If your business has more than one employee then, by law, you need an employer's liability insurance to cover any claims made by the employees for personal injury etc. This cover is not required if you do not have any employees.

- **Public liability insurance**

You will require public liability insurance against claims made from third parties who may make a claim against you if they have suffered an injury or damage to property in connection with your business.

- **Professional indemnity insurance**

You will require professional indemnity insurance to insure against claims made against you for causing financial loss to your clients as a result of potential errors or negligence.

Invoicing

In order to be remunerated for the services provided to your clients, you have to raise an invoice. An invoice should include the following:

- Your business name and address;
- Your customer/client's business name and address;
- Invoice date;
- VAT number, if you are VAT registered;
- Invoice number;
- An itemised breakdown of particulars i.e. chargeable period, rates etc.

Self billing: If you source your assignments through an agency they may operate a 'self-billing system' – they will generate an invoice for you, so there is no need for you to issue an invoice.

Expenses: If you are billing for your expenses then please add VAT to your net expenses.

Choosing an accountant

We at Sipher Accounting & Tax do understand the stress and time it takes to choose your accountants. We can provide you some distinctive features which should help you with this task.

- Is the firm CCAB registered? CCAB includes ACCA, ICAEW, CIPFA, CAI and ICAS
- Can they file accounts, VAT and tax return on your behalf?
- Can they issue you with a reference letter when required?
- Are they offering free initial consultation?
- Would you get direct numbers and email addresses for your accountant?
- Would they file a free personal tax return for you?

Sipher Accounting & Tax Services Ltd is regulated by Association of Chartered Certified Accountants. There are many accounting firms out there (some are just bookkeepers) but Chartered Certified Accountants are held in high esteem. You are ensured of a professional and up to date advice. We regularly attend ACCA seminars to keep us up to date with ever changing accounting and tax laws.

Expenses guideline

HMRC will only allow expenses that are 'wholly, exclusively and necessarily incurred in the performance of your duties'. Typical examples of expenses:

- Salaries;
- Employer's National Insurance;
- Employer's Pension contributions;
- Business travelling;
- Accommodation while away from home on business;
- Subsistence whilst working away from home;
- Lunch while working away;
- Accountancy fees;
- Mobile costs;
- Postage and stationery;
- Home office expenses;
- Business computer equipment and cost;
- Internet;
- Business computer equipment and software costs;
- Technical books and publications;
- Staff entertainment;
- Subscription to approved professional bodies;
- Bank charges.

It is essential to obtain and retain receipts for all expenses incurred in order to be able to justify the expense if questioned by HMRC.

Personal tax return

As a self employed individual / director of a limited company, HMRC will expect you to fill out your tax return each year. The fiscal tax year runs from 6th of April to the following 5th of April. The online tax returns can be filed by 31st of January. The self employment tax return will normally include your profits from your business, rental income, and interest received. Sipher Accounting & Tax will complete your tax return for you and upon approval will file it online. The tax returns are issued in April each year. If you have not been issued with one or received a letter saying that you need to complete one then please contact HMRC to request the tax return.

Paying yourself as a sole-trader

You transfer money from your business bank account (or personal bank account used for business) into your personal bank account.

Use the word 'drawings' as your reference as that's the word HMRC use.

It's best practice to always put business income into your used-for-business bank account first as it helps to show you're not trying to hide any income (e.g. withdraw money from your Paypal business account into your business bank account – and then pay yourself from your business bank account).

Paying yourself as a Limited Company

Setting your salary level

Unless you have a contract of employment with your own company stating otherwise, you have no legal obligation to draw a salary at all.

However, as your salary is deductible against the Corporation Tax liability of your company, it is wise to draw a salary. For example, paying a salary to your better half for office administration.

How do you pay yourself a salary?

Once you have decided on a yearly pay, Sipher Accounting & Tax will provide you payslips or net salary figure which can then be transferred from your company account to your personal account. The reference for the transaction is Salary.

What about dividends?

As a limited company contractor, you will draw down most of your company's retained profits as dividends. And, interestingly, your own company's dividends are treated in exactly the same way as any other UK company. The most important rule you must abide by before declaring company dividends is to ensure that the company has sufficient retained profit to cover them.

Dividends must be paid to shareholders according to each individual's shareholding. For most contractors, this is usually 100% (for a sole shareholder), or 50% each for joint shareholders (such as spouses).

It is best not to treat company funds as your own. You can only take a salary, dividends or reasonable expenses from your company account. The rest of the monies will be regarded as a loan and will attract 32.5% corporation tax.

What about the paperwork?

No-one's keen on paperwork as such, but with dividends, there are several housekeeping tasks you need to keep on top of. Dividend vouchers will be automatically issued if you are using an online bookkeeping software. However if you are using Excel then Sipher Accounting & Tax can assist you in producing the dividend vouchers.

How are dividends taxed?

For the year 2023/24, the first £2,000 of dividends are exempt from tax. If the rest of the dividends are falling within the basic rate band then you will be looking to pay 7.5% personal tax. The higher rate tax is 32.5%.

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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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