Alan Patient & Co

Chartered Accountants • Registered Auditors

GROW YOUR BUSINESS WITH US

A guide to the financial, tax and accounting considerations for new and existing businesses

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INTRODUCTION

This guide has been compiled with various readers in mind. You may be thinking of setting up in business for the first time, or you may have been in business for some time and are considering changing your corporate structure, or maybe you feel its time to change your Accountants. The contents of the pack should have something of interest for all owners and/or directors of small businesses.

In any event, whatever your needs and requirements, whether accounting, tax or business planning issues, here at Alan Patient & Co we have the skills and expertise to help you. We would be happy to discuss any areas of concern that you may have. The first meeting (normally lasting up to an hour) would be free of charge.

To arrange your free consultation or for further information on the services provided by us please contact:

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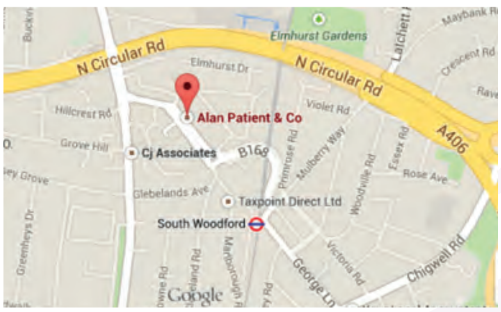
Alan Patient & Co is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work

We are within easy reach of the City and West End being a short walking distance from South Woodford tube station, which is on the Central line. We are also conveniently situated for the North Circular, M25 and M11.



The information contained within this document is designed to be read in the 2016/2017 tax year as it is based on the tax rates and company law current at the time of going to press.

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CHAPTER 1 - SO YOU WANT TO SET UP YOUR OWN BUSINESS?

Before deciding to go ahead, you should ask yourself some tough questions, and be realistic with your answers.

Do you have:

- A special skill, innovation or knowledge which is in demand?
- Your first five major customers already identified? (if non retail)
- A previous track record of success?
- The ability to listen to advice from specialists?
- Good health?

Are you prepared to:

- Work long hours over a period of time to launch the business?
- Be focused on completing business priorities before anything else?
- Put your house and other assets at risk (if necessary) as security for bank financing for some considerable period?
- Forgo aspects of family and social life in the short term to ensure business success?
- And will your spouse/partner/children be supportive?

To succeed you will need:

- A passion for what you do, with a positive commercial attitude.
- A plan, but know that the plan will change as you grow and the business develops.
- To surround yourself with the right mentors that understand your plan.

Alan Patient & Co is a well established firm of Accountants and is also a growing business. We know first hand about the problems of setting up and expanding a business. Our practical advice and service is based in part on being at the sharp end ourselves.

There are numerous pros and cons to weigh up before you decide to run your own business. You have probably already thought of many of them yourself;

THE PROS AND CONS OF STARTING YOUR OWN BUSINESS

Pros:

- **Higher Income**
  Owing to the short-term nature of the work, employers are generally prepared to pay substantially higher rates to contractors than to employees. The employer benefits through savings in holiday pay, sick pay, redundancy, employer's National Insurance etc.

- **Investment**
  Should the business be successful, it will have an intrinsic value that may be sold and provide funds should you decide to retire or even start another business.

- **Independence**
  The feeling of satisfaction from being your own boss.

- **Tax Savings**
  Substantial savings may be obtained by organised tax planning. This is an area where **Alan Patient & Co** has years of experience and can advise on the best ways to minimise tax. After all, it's not what you make, it's what you keep that counts.

- **Expenses**
  Certain expenses will be tax deductible as long as it can be demonstrated that they have been incurred wholly, exclusively and necessarily in the pursuit of the business. A simple guide to allowable expenses is at Appendix I. You should however consult us about the allowability of expenses.

- **Travel**
  There may be opportunities for business related travel, the cost of which may be tax deductible. Examples of which could include travelling abroad to visit potential customers or attend trade fairs.

- **Flexibility**
  You have the freedom to choose how, when and where you work or take holidays when you wish - business needs permitting of course.

Cons:

- **Financial Self Discipline**
  You will need to ensure that you are organised and have control of the business's funds. This will include having enough money put aside to pay tax and other bills when they become due. We can assist you with putting systems into place allowing you to focus more on the business.

- **Risk and security**
  If the business were to fail, it is likely that you will lose all of the capital you have put into the business and you could be personally responsible for the unpaid debts. However, it is possible to limit the risk by trading through a limited company. Further, you may be able to limit losses by obtaining security. You should seek our advice on what structure is most appropriate to your particular circumstances.

- **Taxation and Compliance**
  You are required by law to keep records and maintain a book-keeping system to a certain standard. HM Revenue & Customs will insist on your tax records being up to date with returns submitted and tax paid on time. There is a risk of significant penalties, charges and interest should deadlines be missed. Our team is organised, experienced and able to help you to avoid these problems.

- **Annual Financial Statements**
  You are required to prepare annual accounts; if your business is a limited company they will need to be drawn up to comply with the current Companies Act and Accounting Standards for submitting to Companies House and HMRC. We understand the requirements and are able to prepare your accounts without you needing to invest in expensive accounting software.

- **Sick and Holiday Pay**
  You will not receive any remuneration for absence from work due to illness, (it is usually possible to protect yourself against longer periods of illness by purchasing a good Permanent Health Insurance policy) and you will not receive holiday pay.

So you have read the pros and cons and are still enthusiastic about setting up your own business - what comes next?

Well, you will need to plan how the business will operate and select a legal entity for your venture. Let's deal with business planning first:

CHAPTER 2 - BUSINESS PLANNING

The business plan is your route map to where you want to be and how you intend to get there. When utilised well it can be a valuable tool to help you to understand whether you are heading in the right direction or need to make adjustments.

A well prepared business plan will cover all aspects of the business, from identifying the goods and services provided, the target market, how it will be approached and details of the skills the management has and how the business will be funded.

It will help you identify how much capital is required to commence trade and may be used to support your proposal to obtain investor or bank funding.

Unfortunately, it is a reality that a large proportion of new start-ups fail within the first three years. If a Business Plan shows that the business will get into trouble in (say) year three it should also show how the issues will be dealt with. The most common reasons for business failure need to be considered when preparing the plan.

Major causes of business failure include:

- lack of a broad customer base to ensure sales,
- lack of processes/systemisation,
- owner's insufficient all-round business skills,
- lack of finance to ensure the long term success of the business,
- inadequate cash and working capital management,
- product/service prices set too low (or too high) to ensure business profitability.

A well prepared and properly utilised business plan will address such matters and reduce the risk of your business failing. In the summer of 2013, a company director was **disqualified** from acting as a director in the UK for 8 years as he had **"...failed to implement a business plan** which was critical to the success of the company…"

Before you start your venture you owe it to yourself to spend a fair amount of time and money both on research and a business plan to ensure that the business opportunity is viable. **Lack of preparation and unwillingness to spend money up front could have severe negative consequences later on.** The time spent on a first proposal which is aborted is not wasted; the experience will be invaluable when the next opportunity arises.

Anyone can prepare figures to show good turnover and profits, which may satisfy a secured lender, but if the figures bear no relation to how the business will actually develop then this is a recipe for disaster.

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The real skill in preparing a business plan is adopting a critical approach which includes reviewing all the assumptions and their practicality. To have one's assumptions and ideas challenged may be painful initially but is certainly preferable to losing one's business or home after one or two years, due to the business plan not being based on firm foundations. It is therefore the written part of the business plan, which is critical and not necessarily the projected profit and loss figures.

All business ventures involve risk and there is no guarantee that any particular venture will be a success. What is important is to reduce the areas of risk as much as possible. Therefore, a good business plan in conjunction with regular and timely management accounts will help you keep track of actual performance as compared to the plan so that corrective action can be taken (if needed) to keep the business on target. We recommend (at least) a quarterly review of business progress via discussion of your management accounts with your Accountants.

The name of the game for a small business is liquidity – cash is the key to survival in the early years of existence. There is no room for wishful thinking in either preparing a business plan or in comparing actual results against plan.

You should also remember that setting up a business also entails complying with substantial government legislation (usually called "red-tape"), which will take up considerable amounts of your time and money. Failure to comply can result in substantial fines or even legal proceedings.

Many of these responsibilities can be handled by your Accountants. Here at Alan Patient & Co we have the skills and experience to help you not only with the business plan for new and existing businesses, but also all the administration needed for a successful business start up.

Details and suggested lay-out of the Business Plan

Whatever the size of your business, whether you are an I.T. consultant working from your spare bedroom, or a larger business employing staff, it is important that you put in writing exactly what you are trying to achieve.

The preparation of a business plan has a dual function: it will assist you in establishing and monitoring your business and is an essential tool if you need to raise finance.

The extent of your business plan will depend on the complexity of your business but the following list is indicative of the headings and content you should consider including:

Objectives	What are the aims you are trying to achieve, both personally and for the business?
History	If you have an existing business what is its background, structure and history to date?
Products or services	What exactly are you going to sell, is it unique, and what are its advantages and disadvantages over already available products or services?
Markets and marketing strategy	Who are your customers, why should they buy from you, what is the size of the market in which you are operating, what share of this market can you obtain, what is the competition, and what is your overall marketing, pricing, after-sales service and advertising strategy?
Research and development	If you are developing a product, what stage is it at now, what further funds are required to take it to completion and how vulnerable are you to innovations in technology which may affect your product?
Basis of operation	Detail what facilities you need, the location and premises, equipment and/or plant requirements and labour force.
Management	The skills required can include production, finance, human resources, administration and marketing. This normally requires a team as these attributes are rarely present to the degree required in one individual. It is likely you will need the expertise and experience of external advisers to support and supplement your efforts.
Financial information	This will detail the present financial position of the business (if appropriate) and the budgeted profit and loss accounts, cash flows and balance sheets for the future business. This needs to be completed on a monthly basis for the next year in respect of a small business and for two years after that for a larger concern.
Finance required and application	The detailed financial information above will identify what finance you require to start the business, where you intend to source it and and how it will be applied.
Longer-term objectives	It is useful to consider the longer-term objectives for the business and yourself. Do you have an exit plan in mind?
SWOT analysis	Strengths, weaknesses, opportunities and threats.
Executive summary	Although prepared last, this will form the first part of your business plan. It will cover, in no more than two or three pages, a summary of the important aspects and opportunities of your plan.
Appendices	To the extent necessary, you may include detailed information supporting the above in appendices.

A pro-forma cash flow forecast is shown at Appendix IV

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FINANCING YOUR BUSINESS

The financial projections you have prepared in your business plan will identify the amount of finance you require and how it is to be applied – working capital, purchase of plant and machinery, motor vehicles, acquisition of premises, etc.

The end objective for structuring the finance of your business is to obtain a viable proposition with finance matched to needs.

Most businesses ultimately continue (or not) on the strength of the confidence of their funders. Your financial commitment to the business, together with the outside finance as appropriate, must result in a funder attractive balance sheet. If you insist on proceeding against the judgement of your shareholders, bank manager or financiers, you will launch a business which has a higher risk of failure.

The initial funding provided to the business should enable it to survive a reasonable period of misfortune. Until a stable position is reached the business will be fragile and investors and bankers are likely to take a cautious view. To enable additional funds for expansion to be raised later an adequate equity base (shareholders' or proprietor's funds) will be essential.

Some early questions must be:

- Do I really know how much money I need?
- What proprietor's equity is available?
- What period of finance does the cash flow suggest?
- To what purpose will the finance be put?
- What range of working capital requirement is likely?
- What reward (capital gain) does the proposal offer to the takers of risk?

Sources of finance

Proprietors' equity
Providers of finance will expect the proprietor to invest personal funds in the business. It is usually possible to raise a modest stake and you should consider carefully the possibility of raising finance against your own personal assets.

Banks

Banks provide funding by both overdrafts and agreed term loans. They are willing to lend to viable businesses and will want to be comfortable that there is a good prospect of them receiving their money back.

Bank borrowings will normally need to be secured by charges on the business assets, if available, and usually in start-up situations by personal guarantees or personal security given by the proprietor(s).

Term loans need to be adequately covered by the break-up values of longer-term assets. Overdrafts should be covered by stock and debtors, which should be turned into cash during the year. If they are not, more long-term finance is required and that may have to be equity. As well as security, bankers will look for gearing. That is the proportion of borrowed money to proprietors' own money in the business. It is usually unreasonable to expect banks to put more of their depositors' money into a business than the money put in by the proprietors or by others.

Institutions

For proprietors of many small businesses, the thought of allowing someone else to own shares in what is considered to be a family business prevents them from looking at institutional equity investment. However, there are a number of organisations, including modern crowdfunding schemes that are prepared to take a minority holding in a small business. With buy-back schemes there are better prospects that the equity/venture capital investor will take on the risks of investment, secure in the knowledge that they will be able to get their money back out of the business at a later date. You may need to accept that you will not be able to retain 100 per cent ownership of your prospective business.

Government sources

Consider all available sources of finance, including Government grants and other Government schemes. The range of schemes is enormous, and you should discuss with us the possibility of obtaining grants and other assistance. The National Loan Guarantee Scheme and the Enterprise Finance Guarantee have been established by the Government to encourage bankers to lend money to small businesses which have exhausted all the normal channels for obtaining finance, and when the banker might have been prepared to lend but for the lack of security and/or track record.

Leasing and hire purchase

Leasing and hire purchase can be an integral part of medium-term finance, as can various types of loans from a range of sources including specialist finance companies.

Borrowed funds have certain tax advantages, Let's look at Taxation next.

CHAPTER 3 - TAXATION AND NATIONAL INSURANCE

You will find that tax is not deducted from your business's income at source, as was the case when you were an employee. This does not, unfortunately, mean that you do not have any tax to pay! On the contrary, it puts the onus on you to calculate how much is due and to pay it on time.

Many new businesses fail to manage their finances adequately enough to enable them to pay their tax liabilities on time which unfortunately causes their demise. At Alan Patient & Co, we can assist you with planning for taxes and cash management to ensure the tax man does not cause the untimely end of your venture. Let's consider the taxes that you need to be aware of.

Taxes to be paid

Pay As You Earn (PAYE)
PAYE, or Schedule E Income tax, is deducted from the salary of the employees and directors. This tax is paid to HM Revenue & Customs monthly. Recent changes to legislation require the information on payments made to employees and directors to be submitted in a prescribed format online (RTI).

National Insurance Contributions (NIC)
Class 1 contributions must be deducted from the directors' company salary each month. In addition, the company is also liable to pay an employer's NIC surcharge on each month's salary. The payment of these contributions to HM Revenue & Customs is made at the same time as PAYE.

Lower Rate Dividend Tax
Any dividends paid above the zero band (currently £5,000) up to the remaining basic rate band threshold of £32,000 (after other income is deducted) is chargeable at a tax rate of 7.5%

Higher Rate Tax (HRT)
If your own annual income after personal allowances is greater than £32,000, an additional Income tax called higher rate tax is payable on non salary income such as dividends to bring the rate of tax up to 32.5% (currently) on the excess above that figure. HRT falls due on the 31st of January following the end of the tax year and is payable on the gross dividend. The rate of higher rate tax for salary incomes is 40%.

Corporation Tax (CT)
CT is payable on the profits of the company for an accounting year/period after deduction of allowable expenses and is normally due nine months and one day after the end of the accounting period.

Individuals pay Income tax on income received whether it is by employment, profits from self-employment or dividends from companies. For self-employed individuals, certain expenses can be set off against income – thus reducing the tax liability. A schedule of these items is at Appendix I.

Companies pay Corporation Tax on their profits after adjustments for allowable expenses and depreciation.

Tax can be complicated and the outcomes completely different for different legal entities.

An example of this is as follows:

Using the example of an individual, without a company car, earning £1,250 per week for a 48 week working year, drawing a £11,600 gross salary per annum, registered for VAT using the flat rate scheme at a rate of 14% and commencing work on 1 April 2016, let's see the tax effects on their business using different structures.

2016/2017	Employee £	Sole Trader £	Company £
Turnover (sales)	60,000	60,000	60,000
Total Taxes	17,733	13,407	11,260
Effective rate of tax	29.6%	22.3%	18.8%
Funds retained/ "Net pay"	**42,267**	**46,593**	**48,740**

Detailed calculations are at Appendix II.

We say "It's not what you earn, it's what you keep that counts."

The above scenarios, demonstrate that with a little planning, a **lower amount of tax** can be paid if a **limited company** is used as your trading entity.

At **Alan Patient & Co** we can assist you in making your business tax efficient.

Let's now consider the different legal entities and associated benefits of each.

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CHAPTER 4 - SELECTING A LEGAL ENTITY

One of the first major decisions you will have to make as you start your new business is the form of legal entity that it will take. To a large degree this decision may be dictated by the way you have organised your operations and whether you intend to work on your own or in conjunction with others.

The form of entity you choose can have a significant impact on the way you are protected under the law as well as deciding on how profits are treated by tax rules and regulations. There are two basic forms of business organisations; each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

1. Self - Employed

The individual registers the business with HM Revenue & Customs, either as a sole proprietor or in partnership with another individual such as his/her spouse or a trusted associate. Self-employment offers additional advantages over the partnership or limited company route such as less paperwork and cheaper accountancy fees, while still having some of the tax advantages.

However, it must be emphasised that freelance contractors do not always conform to HM Revenue & Customs' definition of a self-employed person. It is for this reason that many companies, particularly in the building and I.T. Industries, are not willing to offer a contract on a self-employed basis. Generally speaking an individual who works during normal office hours for five days per week, at the premises of a third party, using their equipment, facilities and performing services on behalf of that party should not be deemed to be self-employed. He/she should more correctly be deemed to be an employee of that third party. Therefore, although during your career you may meet people who are allegedly "self-employed", you must seriously ask yourself whether it is the best route for you. The best way you could convince the authorities of your self-employed status would be by having a number of customers or clients and working on several projects at the same time.

In a partnership, each of the individual partners has ownership of assets and responsibility for liabilities, as well as authority in running the business. The authority of the partners and the way in which profits or losses are to be shared can be modified by a partnership agreement. Partnership creditors have recourse to the personal assets of the partners, and under the joint and several rule one partner could find him/herself **fully liable for settlement of all the partnership debts.**

2. Limited Company

A popular form of business entity is the limited liability company because it is generally the best overall alternative; particularly where there is a perceived risk. The business person forms or buys a limited company, which enters into contracts with customers or clients to provide specific services. The limited company then employs the business person to perform these services (with others as appropriate) in fulfilment of its contracts. The business person will generally become a director and the major shareholder of the company. Individual shareholders have their liability limited to the amount of capital introduced, except to the extent of personal guarantees given to third parties, such as a bank.

It should be emphasised that while the formation as a limited company firmly establishes the company as a separate legal entity from its directors, the implications of the Companies Act 2006 and the Insolvency Act 1986 on the actions of directors should be fully understood. Once again, we as your Accountants will be able to outline your duties and responsibilities in this regard.

Since the introduction of the tax legislation known as "IR35", the tax and National Insurance savings of operating a business through a limited company can no longer always be relied upon, particularly where the circumstances of a contractor are very like those of an equivalent employee. We would need to consider the circumstances of your particular case before we could discuss whether the company is vulnerable to "IR35" or not.

Alan Patient & Co can assist you in forming or acquiring your company. Whilst doing so, there will be several statutory matters to consider which are listed below:

Statutory requirements

A number of statutory forms need to be completed and filed whilst forming the company:

- **Appointment of the Director (and Secretary)**
  Each company is obliged by law to appoint at least one director. Private companies may choose whether to appoint a company secretary or not. The director will normally be the business owner. The secretary will normally be their spouse, close business associate or relative of the business owner. The secretary is able to sign company documents and other returns of the company, so it is important that he or she should be generally accessible and someone in whom you can place your trust.

- **Notification of the Registered Office**
  The company is required to notify a registered office to the Registrar of Companies. This will be the statutory address of the company, which is usually different from the trading address.
  All formal statutory correspondence and some tax correspondence will be addressed to the registered office. The registered office can be the home address of the business owner but it is usually the office of the company's Accountants. It is worthwhile noting that the registered office of a company must be within the country of registration, and for this purpose England and Wales are separate countries to Scotland and Ireland.

- **Issue of Shares**
  A company issues shares to raise capital. The number of shares and their nominal value is governed by a company's memorandum and articles of association. Sometimes it is advantageous to issue shares, of different types, to multiple investors. A company is required to maintain a register of its shareholders and submit a return to Companies House on an annual basis. **It is very important that share capital is discussed with us at the outset to ensure the structure is optimally tax efficient and fulfils investors' needs.**

- **Notification of Accounting Reference Date**
  The company must notify the Registrar of Companies of the date to which it intends to draw up its financial statements. In some cases this will be the month end closest to one year after commencement. You may wish to nominate an accounting date for other reasons, for example matching the company's year end to the tax year end of 31st March will be convenient in most cases. However the first accounting period cannot be longer than eighteen months.

  Final accounts must then be submitted to Companies House for that chosen period within twenty-one months of the incorporation date.

Once the company has been formed the following documentation will be received:

- **Certificate of Incorporation**
  As indicated by its name, this is a certificate proving that the company has been incorporated. It shows where and when it was incorporated and its registered number. It may be necessary for you to supply copies of the certificate to other parties as proof of the company's identification. For example your bank will usually require sight of the original before the company's bank account can be opened.

- **Memorandum and Articles of Association**
  You will normally receive several copies of this booklet, which outlines the constitution of the company. It will set out the objects for which the company is formed, its powers for conducting day to day business and will indicate the capitalisation of the company and the original subscribers.

  Copies of the Memorandum and Articles are normally given to the company's bankers, HM Revenue & Customs and us as your Accountants. It may also be requested by potential lenders or landlords. It is advisable to have spare copies on hand at all times.

- **Statutory Books**
  These normally comprise various registers to be maintained, which record the statutory affairs of the company such as registers of shareholders, directors and minutes of all meetings of the shareholders. The statutory books are kept at the registered office of the company.

  Once we have assisted you with forming your company, our company secretarial team can ensure you adhere to your compliance requirements

3 Compliance and Obligations

After the limited company has been formed there are several steps to be taken including registration with HM Revenue & Customs for tax purposes, and (if appropriate) for VAT.

Corporation Tax (CT)
The company must be registered with HM Revenue and Customs for the purposes of Corporation tax and it will be issued with its own unique tax reference number (UTR). After a few weeks a form (CT41G) will be sent to the company as a reminder that details of the company's proposed activities, ownership and various other matters need to be filed with HM Revenue & Customs within the first three months of trading.

Pay As You Earn Tax (PAYE)
The company would normally be registered as an employer. A separate reference number and an employer's pack will be issued from the Employers' unit of HM Revenue & Customs. The business owner will usually be registered as an employee of the company. Director's tax is dealt with by submission of the form P60, which is a statement of gross income and tax deducted to date in the appropriate financial year.

Value Added Tax (VAT)
The majority of businesses are required to register for VAT when their turnover (annual estimated income to the company) is expected to exceed the minimum level set for compulsory registration (presently £83,000 per annum). Even where the minimum is not likely to be achieved, voluntary registration can often be advantageous as VAT paid on company expenses can then be recovered or a "profit" can be made from operating the VAT flat rate scheme.

The pros and cons of registration and the procedures of VAT together with the different schemes available (such as the flat-rate scheme) will be fully discussed at our initial meeting.

Bank Accounts
It is recommended that at least two bank accounts be opened in the name of the company:

- A current or cheque account for the day to day transactions of the company.

- A deposit or savings account that will be used to save funds for payment of Corporation tax, VAT and other tax bills. It is more advantageous to open the deposit account in the company's name, because interest earned on deposit accounts is credited gross of tax. Furthermore, transfers to personal savings accounts will be deemed to be drawings from the business, which would lead to immediate tax implications for the business owner and the company.

To open the bank accounts your bank manager will usually require sight of the original Certificate of Incorporation of the company and be given a copy of the Memorandum and Articles of Association, as well as your personal I.D. Always ensure that your bank manager does not keep the Certificate of Incorporation, as this must be kept at the company's registered office.

4. Accounting Records for Limited Companies

The Companies Act 2006 requires that the directors ensure that proper books of account are kept with respect to: -

All money received and paid and the purpose to which it was applied;
All sales and purchases of the company;
All assets and liabilities of the company;

Apart from discharging legal obligations, it is important that the directors establish a sound and informative accounting system for their own commercial purposes. There is no doubt that the more successful businesses are those where the directors are made aware of the financial position of the company on a regular basis and fully understand the financial implications of the decisions they are making.

The accounting system adopted by a company and its sophistication will depend on the company's individual needs. We are happy to offer advice on the books of account required, which could be manual, spread-sheet based, or an off-the-shelf software package i.e. Sage/ Quickbooks or a cloud – based system such as Xero etc.

It will also be necessary to establish the flow of documents and their filing and retrieval within the accounting system. Under the Companies Act 2006, a company is required to prepare financial statements on an annual basis and in some cases be audited by a registered auditor. Under the Companies Act 2006 (Audit Exemption) Regulations most small companies will be totally exempt from audit. Advice should be sought from us as to whether or not an audit is required.

Final accounts must be submitted to Companies House (usually) within 9 months of the year-end and to HM Revenue and Customs within one year. Late filing will lead to late filing penalties being levied and even in extreme cases the possibility of criminal prosecution of the director(s) or the company being struck off at Companies House.

For accounting periods starting from 1 January 2015, new accounting standards are required for limited companies as part of an EU directive. While for most small companies this will not come into force until accounting periods starting from 1 January 2016, it will mean radical changes in the way accounts are presented, including restating the comparative figures for the prior year.

It is essential to the survival of a business that management information is prepared on a regular basis (say monthly or quarterly) based on reconciled books. You should consult us before trading commences to ensure that your accounting systems provide the information and controls required to fulfil your obligations under the Companies Act 2006 and your own particular needs. Accounting systems are essential for the management of all businesses whatever their legal entity.

A further detailed listing of a limited company's filing and compliance obligations is attached at Appendix III.

5. Auto–Enrolment

Businesses that employ people will be required to provide employees with a workplace pension. Larger employers will already be compliant but the "staging date," (meaning the date from which the pension scheme should operate) will follow for the remaining smaller businesses in 2017 and 2018. Non-compliance can lead to serious penalties being imposed. One person owner/director companies can apply for exemption from Auto-Enrolment.

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CHAPTER 5 - INSURANCES AND PENSIONS

These are two areas all too frequently ignored by business people until it is too late. The contributions are not made as they are regarded as either too expensive or irrelevant. In either case this can be a very costly mistake.

Insurances
Remember that all policies are made under the "utmost good faith" concept. This means that where all relevant facts are not disclosed at the time of taking out the policy, then in the event of a claim, there may not be a pay out.

1.	**Employer's Liability -** this is compulsory and covers personal injuries to employees and damage to personal property.
2.	**Public liability** - personal injury and damage to personal property of members of the public. This can be a very critical item if any products or services will ever be used in the USA, even as a component.
3.	**Company property damage** for fire and theft. Insured values should be based on rebuilding or repurchase cost.
4.	**Business Interruption -** this covers payments by the insurance company to the insured to cover the following where there has been a catastrophic event: - loss of profits - book debts - computer damage (reconstituting computer records for example)
5.	**Other specific business insurance -** such as Fidelity cover, where an employee has access to substantial sums of money. It may seem odd to mention it but some businesses have forgotten to insure company motor vehicles.
6.	**Specific personal Insurance -** this can include: - permanent health, where a replacement income is paid where a key person is not able to work for a considerable period of time - critical illness, where a sum is paid out when a severe illness is diagnosed (e.g. cancer) - key man insurance, where the company insures the life of a director or employee whose activities are critical to the company (e.g. computer development engineer) - co-shareholding insurance – where a lump sum is payable to other directors/partners of a business to buy out the spouse in the event of premature death.

Pensions

Advice on pension arrangements including Auto-Enrolment should only be given by experts qualified to do so, and while we can certainly recommend a good Independent Financial Adviser or Insurance broker, we cannot give advice ourselves.

CHAPTER 6 - MISCELLANEOUS MATTERS

1. Notepaper and Invoices

a) Company

The business letters and other forms of a company such as invoices as well as the website and all electronic communications must clearly show its full name, the country of registration and number under which it is registered, address of the registered office and the address of the place of business, if different from the registered office. It is not essential to name the directors of the company, but if they are to be specified then they must all be named. If directors are named their nationality must also be shown if they are not EU nationals.

b) Partnership

All business letters, written orders for goods or services, invoices, receipts and written demands must either state clearly the name of each partner and the address within Great Britain where any document may be served upon the partner, or alternatively state where a list of partners may be inspected.
A notice containing the names and addresses of all the partners must be prominently displayed in any place where the partnership business is carried on.

c) Sole trader

A sole trader may carry on business under a name other than his or her own. It is not necessary to register the business name although it is necessary to show on all business documentation the name of the business and the address from which it is being conducted.

2. Health and Safety

Health and safety at work is primarily regulated by legislation. The law applies in particular to the provision and maintenance of safe plant and systems of work, and covers all machinery, equipment and appliances used. It has been extended to cover exhaustively all aspects of fire safety.

The rules and regulations are becoming increasingly complex, with the implementation of new European directives and amended regulations under the control of substances hazardous to health (COSHH), electricity at work and the use of visual display units (VDUs).

Inspectors give advice on health and safety matters and there is an extensive amount of technical material published by the Health and Safety Executive. A visit from a Health and Safety Officer can result in considerable additional expenditure for an unprepared company.

Failure to comply with certain regulations may be a criminal offence, and additional expenditure may be necessary to rectify any breach. An industrial accident may result in compensation, time off and lost production. If expenditure on health and safety provisions has not been budgeted for it could cause a financial crisis.

3. Contracts of Employment and Employment Law

It is recommended that as soon as you think about employing staff, you should also think about the legislation surrounding employment. You may find yourself horrified when you first investigate the ins and outs of employment law, and we would recommend extreme caution if you ever find yourself in the position of wanting to fire somebody! Your best option in all things connected with employment law would be to talk to an expert who is up to date with current legislation - happily we are able to recommend a very good Human Resources consultant.

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APPENDIX I – ALLOWABLE AND DISALLOWABLE TAX DEDUCTIONS

ALLOWABLE	COMMENTS	NOT ALLOWABLE	COMMENTS
Business owner's/ director's employee's gross salary		**Private/domestic expenses**	
Spouse's salary	If low or no other income, if actually paid and not unrealistic compared to the duties performed.	**Personal pension contributions**	Unless employer paid
Company NI contributions		**Entertaining expenses**	
Company insurance and Executive Pension contributions	Where paid to a Revenue Approved Scheme	**Private medical and insurance costs**	
Travel expenses	Incurred in travelling to/from contracts	**Fines and late filing penalties**	
Motor mileage or expenses	Incurred in running a motor vehicle for business	**Clothing**	Except protective or safety clothing
Accommodation and subsistence	Whilst on contracts or business visits	**Capital equipment**	Dealt with by Capital Allowances
Printing, postage and stationery			
Telephone/broadband	Business proportion of call charges		
Books and magazine subscriptions	Business related		
Bank charges and interest	On company bank accounts		
Computer software/ consumables			
Accountancy fees			
Use of own home for business purposes	Proportion of domestic costs for space used where no formal office elsewhere		

NB: The above lists are not exhaustive, but are intended to give a general idea about expenses.

Further Notes on Expense Claims

Company Cars
In the majority of cases it will be possible to lease, hire or purchase a new car through the company, or sell an existing car to the company. Some business owners use their cars on company business, but the tax cost of the Benefit in Kind and Fuel Scale Charge benefits charged on company cars by HM Revenue & Customs need to be compared with the advantage of being able to get Corporation tax relief on motor running costs and capital allowances. The alternatives should be discussed with us beforehand.

Private Cars - Mileage Allowance
For some cars where extensive business mileage is envisaged, it may prove beneficial to own a car privately and charge the company for the use of the car on business. Current mileage rates are 45p per mile for the first 10,000 business miles, reducing to 25p thereafter. The best approach should be discussed at our initial meeting.

Use of Home as Office
An allowance may be tax deductible in respect of use of home as office, but as this may have Capital Gains tax implications on the eventual sale of your home, you should consult us prior to any claim being made.

Capital Expenditure
Capital allowances for capital expenditure are generally available, provided that the asset is used in the business.

On motor vehicles the writing down allowance is dependent on the CO2 emissions of the vehicle. Writing down allowances are 18% on other assets.

Employer's National Insurance Contributions on Company Benefits in Kind
If you are unaware or unsure about the National Insurance implications of a company car or any other benefits, you should consult us.

APPENDIX II - TAX CALCULATIONS

To explain the differences on page 12, let us look at the 2016/2017 detailed calculations for each scenario to demonstrate the tax and National Insurance savings which could be gained by a business person working through a limited company as compared with a salaried employee or sole trader.

Employee

This is the position of the employee of any corporate employer. It would also be the position of an owner/director who had not undertaken any tax planning.

		£	£
Gross pay		60,000	
Less: Personal allowance		(11,000)	
Taxable pay		49,000	
Tax Calculation	**Rates**		
1 – 32,000	@20%	32,000	6,400
32,001 - over	@40%	17,000	6,800
Total tax		**49,000**	**13,200**

NIC - Class 1 Employee's contribution

NIC Calculation	**Rates**		
£0 - £8,060	@ 0%		
£8,061 - £43,000	@12%	34,940	4,193
£43,001 - over	@ 2%	17,000	340
Total NIC			**4,533**

Total tax and National Insurance payable by the salaried employee would be £17,733 (29.6% of income)

Sole Trader

Let us now compare this situation with the same individual being self employed as a sole trader at a gross profit of £60,000,

	£
Gross profit	60,000
Less: General expenses	(5,500)
Add: Profit from	
VAT flat rate Scheme	1,920
Personal allowance	(11,000)
Taxable pay	**45,420**

Tax Calculation	**Rates**	£	£
1 – 32,000	@20%	32,000	6,400
32,001 – over	@40%	13,420	5,368
Total tax		**45,420**	**11,768**

NIC - Class 4 -

Chargeable at 9% of profits in excess of £8,060, and 2% above £43,000

		£	£
£0 - £8,060	@ 0%		
£8,061 - £43,000	@ 9%	34,940	3,145
£43,001-over	@ 2%	13,420	268
Class 2 NIC (£2.80 per week)			146
			3,559

Profit from VAT flat rate scheme	**(1,920)**

Total tax and National Insurance payable by the self employed client as reduced by the VAT flat rate profit would be £13,407 (22.3% of income)

Company

	£	£
Total income (Net of VAT, 48 x £1,250)		
year ended 31.03.17		60,000
Less: Director's gross salary	11,600	
Employer's NIC		
(£11,600-£8,060) @13.8%	489*	(12,089)
		47,911
Less: General expenses (all allowable)		(5,500)
Add: Profit from VAT flat rate scheme		1,920
Net profit before Corporation tax		44,331
Corporation tax charge @ 20%		(8,866)
Net available for dividend		**35,465**

*This assumes that the company is unable to claim the Government's Employers NIC allowance for 2016/17. For details on this go to our website www.alanpatient.com

Let us assume the company declares a quarterly net dividend of £8,850 and leaves £65 in the company.

Tax and National Insurance would be accounted for as follows:

	£
CT	
CT to pay	**8,866**
PAYE	
Gross Pay	11,600
Less: Personal allowance	
(Tax code 1100L)	(11,000)
Taxable pay	600
PAYE @ 20%	**120**
NIC	
Employee's contributions	
(£11,600 less £8,060) @12%	425
Employer's contributions	
(£11,600 less £8,060)@13.8%	489
	914

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Personal Tax Calculation on dividends

		£	£
Lower rate dividend tax			
£0 - £5000	@ 0%	5,000	
£5,001 - £31,400	@ 7.5%	26,400	1,980
		31,400	
			£
HRT	@32.5%	4,000	1,300
Gross Dividend		**35,400**	
			3,280

Total tax and National Insurance payable as reduced by the VAT flat profit would therefore be: -

	£
CT	8,866
PAYE	120
NIC	914
Dividend tax	3,280
	13,180
Profit from VAT flat rate scheme	(1,920)
Total (18.8% of income)	**11,260**

It can be seen that the salaried employee would pay £6,473 more tax and National Insurance than the business owner operating through a limited company on the same income. However, this is a very conservative example because by taking advantage of our taxation expertise our clients usually pay substantially less than 18.8% of their income in taxes.

When are the company and personal taxes due and payable?

	£
PAYE AND NIC	
19th May 2016 to 19th April 2017 (quarterly £258)	1,034
CT	
1st January 2018	8,866
Dividend Tax	
31st January 2018	3,280
	13,180
Profit from VAT flat rate scheme refunded quarterly 30th April 2016 to 31st January 2017. (£480 per quarter)	(1,920)
	11,260

Withdrawal of Funds from the Company

Obviously the customer or client will make payments to the company rather than the individual. Therefore the next question to be considered is how money can be withdrawn from the company. There are five ways in which funds are drawn from the company's current account: -

1. Transfers to Deposit Account for Tax and VAT savings purposes

In our example the total income of the company was £60,000 and 14% of the gross sales (under the flat rate scheme) would be liable to be paid out in VAT. Therefore the savings required are:

	£
Total income	60,000
Plus: VAT @ 20%	12,000
Total received	**72,000**
Transfers to deposit account - VAT @ 14%	10,080
- Tax as above	13,180
	23,260

So in our example a total of £23,260 (or £1,938 per month) should be transferred to the deposit account during the course of the year. This of course would not remain in the deposit account, as amounts would be transferred out to pay the monthly PAYE, quarterly VAT and Corporation tax liabilities as they fell due.

2. Direct payment of Company Expenses

It will be possible to pay certain expenses directly from the company's bank account. In our example the company has paid the following expenses:

	£
Pension scheme contributions	1,000
Accountancy fees	1,800
	2,800

3. Reimbursement of Expenses paid by the director

Some company expenses will most conveniently be paid directly by the director from his personal funds. The most obvious are travel and/or car mileage, and if there is a company car: petrol and oil. The director should regularly reimburse this expenditure in the same way that he/she would claim expenses from an independent employer. Therefore, an expenses claim form should be submitted to the company (say, monthly) and a transfer made to the business owner's personal bank account for the amount claimed.

It should be emphasised that all bills, receipts and vouchers for expenses should be kept to be passed on to us for VAT and accounting purposes.

In our example the total claim has been:

	£
Travel/mileage	1,560
Stationery etc	450
Books and literature	170
Domestic bills for use of home as office	520
	2,700

4. Withdrawal of Salary

Assuming you have engaged us for ongoing payroll services as your Accountants, each month we will prepare a salary payslip. This will show your gross salary, PAYE and NIC deductions and the net pay. In our example the gross salary of £11,600 is subject to PAYE of £120 and employee's NIC of £425, leaving net earnings of £11,055 (or £921 per month).

If you do not require us to provide this service, then you will need to prepare the payslips and calculations together with making the monthly submission (and payment) online under HMRC's "Real Time Information" requirements. Year-end payroll returns such as the Annual Declaration, , P60 and P11ds will also need to be completed. There are financial penalties for incorrect completion, non payment or late filing.

5. Withdrawal of Dividends

The balance of funds left in the company can be drawn as dividends declared by the company. This should preferably be done by making a dividend payment once per quarter. In our example the total dividends were £35,400 (£8,850 per quarter).

6. Tax Rates

These are subject to change from one tax year to the next. In this scenario we have used the rates outlined by HM Revenue and Customs for the 2016/17 tax year. To stay up to date with changes in tax rates download our free tax app by either visiting the App Store, Google play or use our QR code at the front of this pack.

APPENDIX III – COMPLIANCE OBLIGATIONS

Matters to be attended to during the financial year

Set-up accounting records and registration for PAYE/VAT etc.	Initially
Maintain accounting records and issue invoices	As required
Prepare initial VAT return and submit	After three months
Prepare subsequent VAT returns and submit	Quarterly
Maintain payroll including RTI submission	Monthly
Pay net salary	Monthly
Pay PAYE/NIC	Monthly or possibly quarterly
Dividend payments	Quarterly
Reimburse expenses	Monthly
Complete Employer's Annual Declaration and submit	Annually
Prepare and submit forms P14 and P60	Annually
Prepare and submit annual return of Benefits in Kind/ Expenses reimbursed (P11d) and expense claims	Annually
Complete and submit personal Income tax return	Annually
Complete and submit Annual Return to Companies House	Annually
Prepare Annual Report and Accounts for submission to shareholders and Registrar of Companies	Annually
Complete and submit company's Corporation tax return form(s) (CT600) to HM Revenue & Customs together with Annual Accounts.	Annually

All the above responsibilities are placed upon the director of the company. However, depending upon the level of services provided by us, all of these duties can be dealt with by us on your behalf.

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APPENDIX IV – PRO FORMA DOCUMENTS

Profit and loss account

Type Your Company's Name Here on the Profit and Loss tab only
Balance Sheet as at Month 12 Year 1

	Month 1 £	Month 2 £	Month 3 £	Month 4 £	Month 5 £	Month 6 £	Month 7 £	Month 8 £	Month 9 £	Month 10 £	Month 11 £	Month 12 £
Fixed Assets												
Intangible Assets												
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0
Tangible Assets												
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0
Investments												
	0	0	0	0	0	0	0	0	0	0	0	0
Current Assets												
Stock	0	0	0	0	0	0	0	0	0	0	0	0
Debtors												
Prepayments												
Cash at Bank												
	0	0	0	0	0	0	0	0	0	0	0	0
Current Liabilities												
Creditors amounts due in less than 1 year												
Net current assets/ (liabilities)	0	0	0	0	0	0	0	0	0	0	0	0
Long term loans												
Director's loan account												
Other long term loan												
Net assets/(liabilities)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Represented by:												
Share capital												
Profit and loss account	0	0	0	0	0	0	0	0	0	0	0	0
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Accounting Ratios

Current ratio

Current ratio less stock

APPENDIX IV – PRO FORMA DOCUMENTS

Balance Sheet

Type Your Company's Name Here on the Profit and Loss tab only
Cash flow forecast for the year to Month 12 Year 1

	Month 1 £	Month 2 £	Month 3 £	Month 4 £	Month 5 £	Month 6 £	Month 7 £	Month 8 £	Month 9 £	Month 10 £	Month 11 £	Month 12 £	Year 1 £
Receipts													
Sales													0
Output VAT													0
Director's loan													
Other loan													0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Payments													
Purchases													0
Salaries													0
PAYE and NIC													0
Heat & light													0
Rent & rates													0
Other costs 1													0
Other costs 2													0
Other costs 3													
Other costs 4													
Other costs 5													
Loan repayment													0
VAT Input													0
VAT settlement													0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Net cash flow	0	0	0	0	0	0	0	0	0	0	0	0	0
Opening cash		0	0	0	0	0	0	0	0	0	0	0	0
Closing cash	0	0	0	0	0	0	0	0	0	0	0	0	0

Bank position

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APPENDIX IV – PRO FORMA DOCUMENTS
Cash flow forecast

Type Your Company's Name Here on the Profit and Loss tab only
Profit & Loss Account for the year ending Month 12 Year 1

	Month 1 £	Month 2 £	Month 3 £	Month 4 £	Month 5 £	Month 6 £	Month 7 £	Month 8 £	Month 9 £	Month 10 £	Month 11 £	Month 12 £	Year 1 £
Sales													
Cash sales													0
Credit sales													0
VAT Output													0
Total sales	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cost of Sales													
Opening stock		0	0	0	0	0	0	0	0	0	0	0	0
Purchases													0
Closing stock													0
Cost of goods sold	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Profit/(Loss)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	0
Administrative Expenses													
Salaries													0
PAYE and NIC													0
Heat & light													0
Rent & rates													0
Depreciation Intangibles													0
Depreciation Tangibles													0
Other costs 1													0
Other costs 2													0
Other costs 3													0
Other costs 4													0
Other costs 5													0
VAT Input													0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Profit/ (Loss)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Accounting Ratios

Gross Profit %

Net Profit %

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APPENDIX V - OUR SERVICES

Alan Patient & Co provides a comprehensive business service which is usually for an agreed annual fee payable monthly by direct debit. We can effectively assume responsibility for dealing with as many of the administrative matters to be attended to during the financial year as you wish. The advantage to you is that you will be free to get on with what you do best, rather than spend costly time dealing with administration, accounting and taxation. The extent of the service you require ultimately determines the level of fee you pay. Fees are normally fixed annually in advance to give you peace of mind when planning your cash flow.

The services we provide could include any, all, or a combination of the following tailored to suit your particular needs: -

- Company formation service to include completion of all statutory compliance forms on your behalf and the registration of your company for Corporation tax, PAYE and VAT. Also essential consultancy on the company's structure to ensure that you pay the least amount of tax possible.
- Standard bookkeeping service on a monthly or quarterly basis, to include all payroll and VAT matters, dividend administration and year-end accounts preparation.
- Use of our office as the registered office of the company.
- Provision of a Company Secretarial support service for the statutory affairs of the company. More details at our initial meeting.
- Dealing with your personal Income tax affairs including preparing your Income tax return, Notices of Coding and agreement of your year-end personal tax liability.
- Management accounts, projected profit and loss accounts, balance sheets and cash flow forecasts and attendance at Board meetings.
- Business plans.
- Tax planning.
- Dealing with HM Revenue & Customs investigations and negotiation with them on your behalf.
- Annual control of dormant companies maintained on a "tick over" basis.
- Dealing with company cessations and VAT de-registrations.
- Provision of prestigious office space for rent and conference room or accommodation address facilities within our building.

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Alan Patient & Co Limited

Chartered Accountants & Registered Auditors

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