

ICAEW Advice Guide

In support of our X-Forces community, ICAEW will be releasing a series of articles supporting entrepreneurs and small business owners by answering some of the frequently asked questions we receive from individuals thinking of embarking on self-employment, through to those scaling up and employing staff.

Each month we release a new article to this series so keep checking each month for the latest advice!

Article 1: First Steps in Business

Preparing for business

This article is for first-time entrepreneurs and highlights the decisions needed to start a business?

Researching and testing your business idea.

Before starting you need to establish who and where are your competitors and how will your offer compare in terms of price, content, convenience, etc?

You then need to develop a plan showing how you will win customers, including a sales forecast by week or month for the first two years. Researching the market and your business proposition's place in it will help improve your chance of success. It will also give you a better understanding of your target market and anticipated demand. It helps shape the decision to go ahead as well as clarifying issues such as where to locate premises, how much to spend on promotion and how much start-up finance will be required.

Will my business support me?

A business should provide you with a satisfactory income in exchange for the time that you put into it. For example you can reduce risk by beginning on a part-time basis or if you are thinking of opening a shop, try hiring a stall in a market first.

Before starting work on a full-time basis, you need to be as certain as you can be that the business will generate enough profit. This should usually involve preparing a business plan, which will not only help clarify your own vision but will also help convince others (such as the bank) that your business has a future.

The business plan should answer some key questions. These include:

- The cost of setting up the business;
- The anticipated trend in sales growth;
- The time before the business breaks-even;
- The cashflow and any finance required;

A business plan will also be essential if you wish to raise finance.

Article 2: Sole Trader v Limited Company

What business format should a start-up adopt?

What business format a start-up adopts will affect the amount of tax the start-up pays. It will also impact other areas such as liability for losses, so it should be decided after consideration of the issues.

There are three basic business formats

Sole trader

This gives you complete control and fewer administrative burdens. But, you have unlimited liability and you could therefore risk personal loss. Sole traders include an annual *Self Employment* return with their *Income Tax* return and pay *Income Tax* and *National Insurance Contributions* on the profits.

Partnership

Partners in a business share profits or losses and unlimited legal liability. All partners include an annual *Self Employment* return with their *Income Tax* return as well as a *Partnership Tax* return and pay *Income Tax* and *National Insurance Contributions* on their share of the profits.

Limited Company

A limited company is a legal entity separate from its owners. Companies file a *Corporation Tax* return with HMRC (H M Revenue & Customs) which summarizes its annual trading results and pays *Corporation Tax* on the taxable profits. Companies must submit annual accounts and other information to Companies House.

Important changes to the taxation of dividends from Limited companies

From April 2016 important changes have been made in the way dividends (from limited companies) are taxed.

The new system gives each taxpayer a new *Dividend Tax Allowance* of £5,000. Dividends received by taxpayers in excess of *the dividend allowance* (and any remaining unused *personal allowance*) will be taxed at 7.5% for Basic Rate taxpayers, 32.5% for 40% taxpayers and 38.1% for 45% taxpayers

From 2016/17 a limited company format will be less tax efficient – a business needs to make profits approaching £40,000 to be tax efficient and to cover the costs of being a limited company.

Article 3: Start-Up Finance

“Will I need finance to set-up my business?” is one of the first questions a start-up business must answer. This might be to fit-out a premises, wages to pay staff while they are training or buying equipment.

Own Personal Savings & Friends & Family

Business owners or friends and family often inject money into a start-up business either as a loan or by buying a share of the business. To avoid arguments, the key features of the arrangement should be put into a written agreement.

Credit Cards

Credit cards are a regular source of finance for start-up businesses; They are often used for items such as travel, stationery, car expenses and are a good way of smoothing out unexpected bills, But allowing debt to get out of control will damage a business owner's credit rating.

Credit Unions

Saving in a CU (usually for a period of at least three months) will allow individuals to access lending facilities. The Association of British Credit Unions (ABCUL) website provides information regarding location of member credit unions and their services. Some larger CUs offer current account facilities.

Website Association of British Credit Unions <http://www.abcul.org/home>

Community Development Finance Institutions (CDFIs, now called Responsible Finance)

Community Development Finance Institutions (CDFIs) lend money to those unable to get finance from conventional lenders. There are around 60 active CDFIs operating across the UK.

Website Responsible Finance

<http://responsiblefinance.org.uk/>

Grants

The government website helps businesses search for grants including help with moving from benefits to work/self-employment..

Websites The GOV.Uk website has a “Business finance and support finder”

<https://www.gov.uk/business-finance-support-finder>

Startup Loans

Start-Up Loans is a government funded scheme providing advice, loans and mentoring to start-up businesses. They provide the opportunity to borrow up to £25,000 at 6% pa (fixed). X-Forces is a delivery partner of the Start Up Loans Company and we specialise in start-up loans for the Armed Forces and Emergency Services communities and their family members.

Websites: Start-up

Loans

<https://www.startuploans.co.uk/>

Article 4: Why do a business plan?

A start-up business should prepare a business plan to map its progress to profitability.

For start-ups the sales forecasts are critical – particularly how the new business will attract customers. Next, the plan will specify the resources (people, equipment and money) required to achieve the forecast sales, including realistic timescales to achieve significant milestones such as when the business will start trading. This information will be the basis on which the financial forecasts (Profit & Loss Account, Balance Sheet and Cashflow forecast) are prepared. Once completed, the plan can be used to monitor the performance of the business.

As a business grows, the first business plan can be used to prepare annual budgets and updated financial forecasts for the year ahead. A business plan is next required when considering raising finance.

Finance providers require considerable information in support of loan applications, such as financial forecasts, historic annual accounts and management accounts. A business plan should provide a vision of the business' future, how it will grow and why the finance is required and how it will be paid back.

But it's when a business wants to sell shares in the business that a full business plan will be most required. The business plan must be exciting but credible and offer evidence of growth and future prospects. The Executive Summary must have a wow factor. It should clearly describe the business proposition and contain a summary of the financial figures, up to five years ahead, including the amount of capital sought. Potential investors will want to examine the details supporting the business plan. So be prepared to back up key assumptions.

The skills learnt and the perspectives gained preparing the first plan will help with growing the business, raising finance and, who knows, one day potentially the sale of a successful business.