



STARTING UP IN BUSINESS: A PRACTICAL GUIDE

What you need to know

Have you reached a point where the idea of running a business feels like more than just a pipe dream? Perhaps you have identified a gap in the market, you want greater independence or your side hustle is telling you that it has the potential to become a full-time income.

Whatever the motivation, taking some time at the outset to understand the practicalities can make starting a business smoother and help you to avoid costly surprises later.

Here we review some of the things you will want to consider.

Selecting an appropriate legal structure

A first decision for a new business is to choose the structure under which it will operate. In the UK, most new ventures start either as a sole trader (or a partnership if there is more than one of you) or as a limited company.

Each option has advantages and disadvantages, so it pays to consider what the business will be doing, the expected income, and how you want to manage risk and growth before deciding which is best for you.

Setting up accounting and bookkeeping systems

Accurate financial records are essential for monitoring the performance of your business and complying with its legal reporting requirements.

For new businesses, using cloud-based bookkeeping software from day one is often a good approach. Software platforms can now connect directly to business bank accounts and identify expenses from receipts stored electronically. This can be a time saver for you.

Considering VAT

VAT is an area where early planning can prevent unexpected bills. Registration becomes compulsory once taxable turnover exceeds the VAT registration threshold on a 12-month rolling basis or will exceed the threshold in the next 30 days. However, for some businesses, it can be worth voluntarily registering earlier.

VAT registration can affect your cash flow, pricing and competitiveness, so understanding this before you cross the threshold is important.



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Running payroll

If the business will employ staff, or if you set up as a limited company and want to draw a salary as a director, you will need to run a payroll.

A payroll is easy to set up, but it triggers ongoing and regular obligations, including calculating pay and PAYE tax and national insurance (NI), reporting to HM Revenue and Customs each pay period, issuing payslips, and potentially managing the requirements for workplace pensions.

Tax obligations: income tax and corporation tax

Sole traders pay income tax and Class 4 NI on their profits. One point that often surprises new business owners is the payment on account system, which can make your first tax bill larger than you might expect.

On the other hand, limited companies pay corporation tax on their profits. Directors then pay personal tax on any income taken from the company. This makes it important to consider how funds will be withdrawn from the business, as the tax effect can be significant.

Cash flow planning and forecasting

A business can be profitable on paper but still struggle financially if cash is not available when it is needed. For example, suppliers might need to be paid straight away, but customers do not pay until the end of the month.

Cash flow forecasting can help you predict when money may be tight, and allows you to plan on how to reduce pressure.

Accessing credit and finance

Many new businesses need some form of finance, perhaps to buy equipment or support working capital requirements. Options can include start-up loans, business overdrafts, hire purchase and leasing. Lenders typically look for a clear business plan. Well-kept records and organised accounts are often a big help in getting approval.

How can we assist?

Clearly, there is a lot to think about when starting a new business, however, help is at hand! Why not ask us for a copy of our free “New Business Kit”? This is a comprehensive guide to the financial, tax and accounting considerations of starting a business.

Starting a business well can make a significant difference to long-term success, and we are available to help you navigate each step with confidence.

Please do talk to us if you would like any personalised help in opening a new business