Veritons

Starting a business factsheet

At Veritons we love advising start-up businesses, and we appreciate there is an awful lot to cover and remember so we decided to make this factsheet.

We've broken it down into common questions, and whilst we have tried to include as much detail as possible, every business is unique and so if after reading this guide you have any questions, please do not hesitate to contact us either by email on info@veritons.co.uk or by phone on 01634 887281.

What business structure should I use?

This is a great starting point. There are some key questions to answer before making a decision:

- Are you going into business alone or with others? If others, is your business partner going to be your spouse?
- Your income position and whether you plan to extract profits in full, in part, or not at all for the first x number of years?
- The industry you are going into.
- Your family position.
- Your future plans for both the business and you personally.

The most common options are to operate as a sole trader, under a partnership, as a Limited Liability Partnership (LLP) or as a Limited company. They all have different characteristics and are appropriate for different scenarios so below we take a look at each of these in more detail.

Sole trader

This is an individual operating in business as themselves. Any assets (for example a van used in the business) are in the name of the individual and there is unlimited liability which means that the debts of the business are also the debts of the individual. The advantages and disadvantages are as follows:

Advantages

- The simplest structure and only requires your registration with HMRC.
- Taxed on the profits of the business not what you draw out. The advantage to this is you do not need to consider a tax effect when drawing money from the business as your tax is based on how it performed, however it can also be viewed as a disadvantage from a cash flow perspective (see disadvantages for detail).
- The cheapest from a compliance perspective as only requires submission of a personal tax return.
- Your business results are not available to the public as there are no public registry filings.

Disadvantages

- Possibly not the most tax efficient depending on results.
- Unlimited liability – this is a big consideration, especially if you are operating in a high-risk industry. The business debts are your debts.
- Excludes access to some tax schemes such as Research & Development claims.
- May be a barrier to growth – both in terms of customers who may fear continuity, and the recruitment of new staff can be more difficult.
- All of the profit is taxed, regardless of whether it is withdrawn, which can be challenging when you are reinvesting profits in the business.

Partnership

A partnership is basically a collection of sole traders. You share the liability and share the profits (how will depend on the partnership agreement – we would always recommend getting this legal agreement before starting a partnership or LLP). All the partners will file self-assessment tax returns showing their profit share.

Advantages

- Easily adapted for incoming or outgoing partners.
- The results and/or position are not available to all as there are no public registry filings.

- The partnership agreement may allow for profit shares to vary, which makes it easier for the profit share to be related to performance.
- Taxed on your profit share, not what you draw out (same as sole trader advantage).

Disadvantages
- Possibly not the most tax efficient, depending on results.
- Unlimited liability – and also vicarious liability between partners, i.e. the actions of one partner binds them all.
- Excludes access to some tax schemes such as Research & Development claims.
- Can be difficult to recruit new partners due to the unlimited liability.
- All of the profit is taxed regardless of whether it is withdrawn (see sole trader disadvantage).

Limited Liability Partnership (LLP)
A relatively new structure by comparison, an LLP is registered with Companies House and allows for a partnership to operate while affording the members with limited liability.

Advantages
- Easily adapted like a traditional partnership but offers limited liability to members often making recruitment easier.
- The partnership agreement may allow for profit shares between members to be easily changed to reflect performance.
- The LLP is its' own legal entity so can be named in contracts.
- Taxed on your profit share, not what you draw out (same as sole trader advantage).

Disadvantages
- The LLP must publish its' results and/or position and details of who the members are with Companies House.
- Accounting requirements are more time consuming and complicated.
- All of the profit share is taxed on the members regardless of if it is extracted which can be challenging when reinvesting some of the profits in the business.
- Possibly not the most tax efficient depending on results.
- Excludes access to some tax schemes such as Research & Development claims.

Limited company
This remains a very popular choice. A limited company is its' own legal entity and is owned by its shareholders. It is run by the directors, who in a lot of smaller businesses will also be the shareholders.

Advantages
- The company is its' own legal entity so can enter into contracts.
- Limited liability (there are rare occasions when this can be disapplied).
- May be more tax efficient, greater opportunity for tax planning, and access to more tax schemes such as potentially Research & Development claims (if what you are doing qualifies).
- Personal tax exposure only on what is drawn out of the business via salary, or dividends if you are a shareholder.
- Greater investment opportunities with initiatives such as crowd-funding, but can also consider EIS/SEIS in order to give benefits to investors.
- Employee share schemes can be used to incentivise employees.

Disadvantages
- Statutory compliance can be onerous and there are legal obligations on the Directors.
- The company has to publish its' results and/or position with Companies House, including details of who the directors and shareholders are.
- Accounting requirements are more time consuming and complicated.
- Will require an audit once the thresholds are met.

In the brief details above we have outlined a selection of the advantages and disadvantages which should give you both some ideas and some questions. When you're at that stage we are very happy to sit down with you and discuss how you move forward. You can book your free intro meeting by visiting https://veritons.co.uk/contact-us/

Cont.

When must I register for VAT?

No matter which structure you operate under, you will have to register for VAT when turnover in any 12 month rolling period exceeds £85,000, excluding any exempt or "outside the scope" supplies you make. HMRC provide further detail on what is exempt or outside the scope on their website, a link to which is below:

https://www.gov.uk/charge-reclaim-record-vat/when-not-to-charge-vat

As long as you are (or intending to) make supplies which are not exempt or outside the scope, then you can voluntarily register for VAT before reaching the £85,000 turnover level.

What tax returns have to be filed?

The types of tax returns that must be filed with HMRC will depend on the structure you decide upon.

Sole trader

The individual must register for self-assessment and file a personal tax return.

The tax return covers up to 5 April each year and must be filed with HMRC by the following 31 January.

Partnership

Each partner will have to register under self-assessment and file a tax return with HMRC. Although the partnership itself does not pay tax, it will have to file a Partnership Tax Return with HMRC (which also runs to 5 April each year) showing the total profit and how this was divided out amongst the partners. Each partners' self-assessment return will then show this profit share and they will pay income tax and National Insurance accordingly.

Limited Liability Partnership (LLP)

Although this is its' own legal entity, from a taxation perspective it operates in exactly the same way as partnerships.

Limited company

The company will have to file a Corporation Tax Return (CT600). This has to be filed with HMRC within 12 months of the year end. Any shareholders earning more than their dividend allowance in a tax year will also have to file a self-assessment tax return.

When do taxes have to be paid?

There are different deadlines depending on the tax concerned:

Income tax / NIC on self-assessment

Any income tax or NIC owing for a tax year (after the payments on account) must be paid by 31 January following the end of the tax year. For example, for the tax year ended 5 April 2023 it must be paid by 31 January 2024.

Payments on Account are made every 31 January and 31 July. For more information on payments on account and how they work see our helpful blog at https://veritons.co.uk/self-assessment-payments-on-account-how-they-work/

Corporation tax

Although the deadline for filing the Corporation Tax Return is 12 months after the year end, the deadline for payment of any corporation tax owed is 9 months and 1 day after the year end.

VAT

Depends on the VAT scheme the business is operating and the manner of the payment. HMRC have a dedicated website to advise which can be found at https://www.gov.uk/vat-payment-deadlines
Or take a look at our VAT factsheet.

Other considerations when starting a business

We are a young business ourselves having started trading in September 2022, so other considerations to make are still very fresh in our minds. The key areas we would suggest looking at are:

01634 887281 | info@veritons.co.uk

Veritons

Business name

When incorporating an LLP or Limited Company, Companies House will check to see if anyone else is already using that name, or something very similar. Even if you are operating unincorporated, i.e. as a sole trader or partnership, you can only use a business name that is not too similar to an existing one whereby it could cause confusion to a customer. Coming up with a business name is often a much more time consuming process than you imagine!

Website

For almost all businesses an online presence is essential. Make sure when you are considering business names that you are also checking if a suitable website address is also available. There are amazing tools available that make building a website easier, but you will need to consider how pivotal it will be to your business and whether this means employing the services of an expert is better.

Bookkeeping solution

If your business is VAT registered then it is subject to certain bookkeeping practices and invoicing regulations that mean it is best to use a specific bookkeeping software. This will also enable the filing of the VAT return under the now compulsory Making Tax Digital System. Even if you do not start out VAT registered, or never plan to, we would recommend using a specific bookkeeping package from the outset. The big names in this industry are Xero and Quickbooks, and at Veritons we are certified advisors on both of these and can provide training if required. You can book your free intro meeting by visiting https://veritons.co.uk/contact-us/

Business bank account

A bank account for your business can now often be opened within a matter of hours, with both challenger and established banks offering online or app driven accounts. The move in cloud bookkeeping solutions has been to link your business account so that transactions automatically feed into them for you to then analyse. The vast majority of accounts will link but it is best to check that the bank account / software combo you are planning on will work in this respect.

Starting a business is an exciting time, and compliance with accounting and tax matters should not take away any of that excitement. At Veritons we will simplify the stressful to make sure you are fully compliant and working under an optimal strategy at every stage of your business journey. If you would like a free initial consultation please do not hesitate to contact us on 01634 887281 or info@veritons.co.uk