

# How To **Kick Start** Your New Business



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# Introduction

Here at Aston Black, we care about you and your business. We want the best for you so your business thrives!

We can help with many different aspects of your finances and accounts within your business from Corporation tax to payroll. We can also give you solid advice on what financial decisions you should be making so your business only goes up.

We are aware that when you start a small business it can be exciting and your main focus will be on what your business is and probably the aesthetics of the business and getting the word out there. However, the hardest part of starting a business is probably setting it up legitimately with the right finances in place.

You'll need to know what kind of company you want to set up, what taxes you need to pay, what you need to tell HMRC and more...

Therefore we've written this short e-book to help you with your new small business and get on track from the beginning!

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## HMRC

### Register your business

Your business can come under three different areas, decide whether you want to be a **sole trader**, a **limited company** or a **partnership**.

#### Sole Trader

The most straightforward way to get started is as a sole trader. This process will require you to register with HMRC and has minimal startup costs. This method will also give you complete control in terms of how money is spent and with any decision making.

All you'll have to do is submit a Self Assessment tax return so there is less accountancy involved too. Corporation tax won't be an issue.

Becoming a sole trader does have one, quite significant disadvantage. By law, you're not separated from the business, so if it makes a loss, your personal assets will be at risk too.

#### Partnership

In a partnership, you and your partner (or partners) personally share responsibility for your business. This will include any losses your business make. It also means you share responsibility for the bills on things you purchase for your business such as stock and equipment.

All the partners will share the profits made by the business and they will pay tax on their individual share.

A partner could include a limited company as it is classed as a 'legal person,' so the partner doesn't have to be an actual person.

#### Limited Company

This route requires much more accountancy admin. Corporation tax and dividends will all need to be taken into consideration. However, you can claim more expenses with this option so there will be an opportunity to make great tax savings.

A limited company has the potential issue of IR35 legislation, especially with planned reforms to the private sector and new reforms already in place to the public sector. All potential business losses will be liable to the company so your personal assets will always be safe if anything were to happen. If you want to change from contractor to business owner, this is a great option to take.

#### Rules

**You need to check if you have any other responsibilities that need to be noted. Things you may need are:**

- Licences / Permits: This could be necessary if you're wanted to play music or trade foods and goods in the street etc.
- Insurance

**There are other rules you may need to look into if you are wanting to**

- Store and use the personal information of others
- Buy and sell goods abroad
- Sell goods online

#### Location

**There are different rules depending on whether you run a business from home, are on the move and don't technically have an office e.g. plumber or builder or whether you rent an office to run your business.**

- You may need to pay business rates
- Expenses may be claimable depending on where you work from

#### Extra Help

**You need to consider your responsibilities if you decide to employ other people, take on agency workers or freelancers, for example, you may be responsible for:**

- Health and safety
- Paying them
- National Insurance
- Pensions



## Taxes & Payments

Taking the leap to start your own business is really exciting and life-changing, you get to pretty much be your own boss and do things your own way. However, as exciting as it may seem there are a few serious things you have to get to grips with to make sure everything runs as smoothly as possible.

We've noted below some quick explanations for small business taxes to help you get a better idea what you need to pay. We can help you with your business taxes to make sure you're on top of all your finances.

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### Corporation Tax

This is applied to a limited company's profits after employees' salaries and other business related expenses have been paid out, but before dividends are withdrawn.

You don't need to pay Corporation Tax if you're a sole trader.

Corporation Tax is usually paid annually with UK-based limited companies submitting an online form to HMRC. The form is called a CT600 and will contain details of your company's income without any tax allowances and expenses.

Your Corporation Tax is due nine months and one day after your trading year ends. However you can pay this earlier which we would definitely recommend as there can be fines if it goes through late.

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### Income Tax

This is paid on certain income you receive personally. It's not payable on asset sales such as buy-to-let properties as this would be taxed under Capital Gains.

Income Tax will be taken at source through your company's PAYE scheme if you draw a salary above the personal allowance as a limited company. All company directors have to complete an annual self-assessment in which dividends will be taxed through.

Income Tax is to be paid on all the profits on your annual self-assessment tax return if you're a sole trader.

The payment should be made to HMRC before 31st January annually.

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### National Insurance

Your contributions to National Insurance help build up your state pension entitlement and also go towards paying for public services. Everyone needs to pay National Insurance, however only if you are over 16 and are making a profit equal to or above the current primary threshold.

Your contributions will be taken via PAYE if you're a limited company director. However, for sole traders, it is calculated in the annual self-assessment you're required to complete.



## VAT

VAT (*Value Added Tax*) is the sum that is added to most goods and services you come across. You must charge VAT to customers if you're a VAT registered company, however you can reclaim VAT they have paid through your business expenses.

You don't need to register for VAT unless your company's annual turnover is above the current threshold. Your company will not be automatically be registered either.

Once you register, VAT is paid quarterly. The money that is owed must be paid online within 37 days of the end of each quarter.

You must submit a return if you're registered for VAT even if you don't have any to pay or reclaim.

The VAT Flat Rate scheme simplifies VAT reporting for small business which can be beneficial for those who have a turnover of less than £150,000. This would mean there is no need to record VAT for individual sales or purchases.

You can still charge the basic rate of VAT this way but only pay HMRC a flat percentage rate, resulting in an increase in take-home pay.

## Income Tax

You're more than likely going to have to pay business rates if your business is run from a non-domestic property such as a shop, office or factory.

Each year around February or March you'll be sent a business rates bill for the tax year that starts in April. You can pay in different ways which will be highlighted on the bill, for example, there is an option to pay in monthly instalments.

**There could be other taxes you may need to pay. If you're ever unsure then get in touch with us on [01908 046964](tel:01908046964) or get in contact with HMRC.**



## Laws & Regulations You May Need To Consider

When starting your new business, there may be certain laws you need to be aware of to ensure you're abiding by them at all times. It is easy to not know about certain business and privacy laws so here are a few you may need to know:

### GDPR

This requires companies to be transparent with what data they are taking from a consumer and where they will be using it. You cannot automatically opt someone into using their data without their consent.

### Consumer Rights Changes

You cannot add extra charges to payments taken by credit or debit card.

### Gender Pay Gap

This should be transparent and high on the list for all businesses. Paying equally is not only fair but it will also build stronger customer relationships as they know your business has strong ethics.

### National Living Wage

You need to be aware of the national living wage to avoid being publicly shamed and to avoid facing any penalties. The National Minimum Wage is set to increase too so ensure you're always abiding by these rules.

### Brexit

Be aware of any changes put into place due to brexit negotiations. This could leave you with changes to trade regulations, employment and more.

**Always check with HMRC if you are unsure you're missing something or get in contact with us directly where we will help as much as we can.**

## Paying Your Wage

When starting out with your own small business, there are many different structures to choose from with the most popular company structure in the UK being a limited company.

A limited company can be a very sensible choice for self-employed people, particularly, as your turnover grows, the structure of the limited company can throw up a couple of things that can be a struggle for small business owners to get their head around.

One of the biggest hurdles you stumble across when starting your own business is knowing what you should be paying yourself and also how to do so.



## Taking a Salary

For owners of a limited company, there are a few main reasons why they should take a salary from their own business, besides the obvious fact that you need some form of income to live on.

The first is to do with tax. Your salary can be classed as an expense to the business in a limited company, which in turn will lower the company's Corporation Tax Bill at the end of the year.

The second reason is that by taking a salary can benefit your pension in the future. The Lower Earnings Limit of £6,032 per year sets a benchmark in the current tax year. If you are paid anything above this then it qualifies you for another year of the state pension.

## What Should My Salary Be?

There are benefits of having a lower and a higher salary, so it comes down to what works best for you and your company.

Firstly, in the current tax year, taxpayers have a personal allowance of £11,850. If you allow yourself this salary over the course of the tax year then you won't pay income tax.

Additionally, there is also a National Insurance Contribution (NIC) threshold, but this is set at a slightly lower level before you will start receiving charges for it.

If your salary is above the NIC 'Lower Earning Limit' of £6,032, but it falls below the 'Primary Threshold' of £8,424, then there will be two outcomes. You won't pay NIC and your State Pension contribution record will continue.

However, there are negative repercussions of taking a lower salary. For example, you could miss out on your annual tax-free allowance if your salary is paid at the NIC Threshold.

## Tax On Salary

When it comes to PAYE, your salary is treated in the same ways as any full-time employee regardless of whether you are the business owner.

Moreover, income tax is cumulative for all employment earnings during the tax year. This means that if you have already earned £7,800 for example, from any employment in a tax year, then your personal tax-free allowance will be reduced by this amount.

However, National Insurance Contributions (NICs) aren't cumulative like income tax. Each new employment has a separate earnings threshold which will be taken into account before NICs are due. Please note that there is a maximum amount of NIC that can be paid for employees who fall into the higher tax bracket.

This threshold is set as a monthly amount if you're an employee that is below Director-level. You'll be liable to pay NICs if your pay exceeds this amount in any month,

Directors have an annual threshold, which is 52 times the weekly threshold amount. Again, when their salary goes above this they will pay NICs.

So it comes down to knowing what the most tax efficient way to take a salary from your own business is...

Looking at all the above taxes together, it is usually the most tax-efficient for people to take a salary up to the Primary National Insurance threshold, which is £8,424 in the 2018-19 financial year. You will still accrue qualifying years for the state pension as the Lower Earnings Limit is lower than the Primary National Insurance Threshold.

You won't pay any income tax if you take a salary up to the Primary National Insurance threshold as long as it is your only source of income. However, you can pay yourself as much or as little as you like.

## Paying Your Employees

If your business is going to be hiring employees, you'll need to know how to pay them properly. We've discussed abiding by the National Living Wage, National Minimum Wage and the gender pay gap, but what else do you need to do?

You'll most likely be operating PAYE as part of your payroll which is HMRC's system to record and collect income tax and National Insurance.

### By Payday

- **Record their pay**
- **Calculate deductions such as tax and National Insurance**
- **Work out their contribution to National Insurance**
- **Produce a payslip for each employee**
- **Report all of their pay and deductions to HMRC in a Full Payment Submission (FPS)**

Again, to ensure you haven't missed anything vital, get in contact with HMRC or with us so we can help make sure you're all set.

### Getting The Word Out

Okay so your business is all set, now you need people to know about it!

To do this you will need to consider the following things:

- **Setting up a website**
- **Creating social media platforms**
- **Making leaflets/ business cards**
- **Promoting your new business in local magazines/papers**

Take into account what would be relevant to make your business grow. We'd recommend everyone has a website, and that handing out leaflets/ business cards can do wonders. Once your business gets kickstarted word of mouth will really help it grow too.

### How We Can Help

We can give you plenty of advice on all of the above, but most importantly we can help you to maintain your business and manage your finances in the long term.

We can assist with matters such as:

- **Business tax returns**
- **Personal tax returns**
- **Payroll**
- **HMRC investigations**
- **Limited Companies**
- **Sole Trader and Partnerships & more...**

**We hope this book has been insightful for you and has answered some of your concerns with regards to starting a new business. Please don't hesitate to get in contact with our Milton Keynes accountants today at [www.accountantmk.co.uk](http://www.accountantmk.co.uk) or by calling **01908 760293**.**