Hazlewoods

Are you starting a business?

A guide to your first steps

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Starting a business

If you are thinking of setting up a small business, it is essential that you know exactly what is involved. Our step by step guide will take you through each of the key stages of the start up process from researching your idea through to launching your business.

Getting the set up right can make the process seem less daunting. Remember that half a million new businesses start up in the UK each year, with many operating successfully and profitably.

Funding

Funding can come from many different sources.

You could consider:

- Bank overdraft
- Bank loan
- Government start up loan
- Family and friends
- Private investors, or crowdfunding

Talk to us if you feel funding would be beneficial, to discuss the best option for you and your business.

Your start-up checklist

- [ ] 1. Evaluate opportunity with a business plan
- [ ] 2. Formulate a marketing strategy
- [ ] 3. Draft a budget
- [ ] 4. Choose an accountant
- [ ] 5. Determine your business structure; sole trader, partnership, LLP or limited company and get set up
- [ ] 6. Register your business
- [ ] 7. Set up your bank account and obtain funding
- [ ] 8. Choose accounting software for record keeping
- [ ] 9. Obtain insurances such as public and employer liability insurance
- [ ] 10. Start selling

The business plan

You have decided to start your own business - great! So, what is the plan? A business plan is a great place to start, and will help you achieve your objectives and can also predict potential pitfalls. This could also become a fundamental document for your business, should you seek external finance.

You should be thinking about the following:

Financial projections: How much revenue are you expecting to generate in the first year, and where from? What are your fixed and variable costs, and what resources will you need? How much funding will you require, and from what source?

Location: Will you be working from home, or renting premises? Will you require storage for stock items?

Your experience and expertise: Where does your expertise lie? Which areas of running the business may you need support with?

Key markets and competition: What markets will you be targeting, and who are you competing against? Undertake market research? What is your USP?

We can help you structure and prepare this business plan to get you on the right track.

Click here to download our template.

Sole Trader or limited company?

One of the most difficult decisions you will have to make when first setting up your business is whether you would like to operate as a sole trader, partnership, or a limited company.

The choice you make will have an impact on almost every aspect of your business and what might work for one business may not necessarily work for another.

Our aim is to provide you with the main advantages and disadvantages of both business types, giving you the framework needed to make an informed decision.

Sole trader (or partnership):

Key benefits:

- With a sole trade business there is no legal obligation to disclose your financial information on public records.
- However, HMRC have introduced MTD where sole traders will have to submit quarterly returns of income and expenditure, and then an annual return at the end of the year.
- A sole trade business can easily be incorporated into a limited company if your circumstances change over time.

Key drawbacks:

- When considering becoming a sole trader, you will need to understand that there is little distinction between yourself and your business. You will be personally liable for any outstanding business debts, other liabilities and claims.
- As you and your business are seen as one unit, you will need to rely on your personal credit rating to secure borrowings needed to grow your business.
- As the sole proprietor, you will be taxed personally on the total profits of the business, not just what you take personally.

Limited Company:

Key benefits:

- One of the most favourable aspects of a limited company is that the company has its own separate legal identity; therefore, as a shareholder, your liability and risk is usually limited to the amount you have invested into the business.
- You are taxed on the money you extract from the business which allows for much more efficient tax planning and debt repayment. Moreover, the ownership structure of the business can be tailored to suit your individual and family circumstances allowing you to use the maximum benefit of any tax reliefs available. For example, spouses can be shareholders and different share classes can be used.
- Running your business as a limited company can provide you with a wider range of business opportunities that are unlikely to be available to you as a sole trader. This is based on the general perception that a limited company is a more credible business due to the more rigorous compliance procedures and therefore customers have more confidence in the success of the company.
- You can claim for some costs associated with using your home as an office.

Key drawbacks:

- As a limited company, you have many administration requirements and deadlines to meet, which can end up being quite costly and time consuming. However, these deadlines are something your accountant will help you keep on top of, to prevent your company incurring any penalties.
- Your accounting information will be on public record, along with details of the directors and shareholders of the company.

Example of the difference in taxation of a sole trader and a limited company

(Assuming a profit before tax of £50,000 in 2026/27.)

Sole trader

A sole trader making a pre-tax profit of £50,000 would be liable to income tax on the profit above the personal allowance of £12,570 at 20%.

If profits are under £7,105 per annum (2026/2027) sole traders can voluntarily pay Class 2 NIC for a national insurance credit at a rate of £3.65 per week. Sole traders are also liable to pay class 4 national insurance at 6% above the lower limit of £12,570 (2026/2027).

This means that the total income tax due would be £7,486 and total national insurance contributions due of £2,246 giving a total liability of £9,732.

Limited company

With a pre-tax profit of £50,000, and assuming there are no employees in the business, the company could pay the director a salary of £6,708. This would incur employer's national insurance charge of £256 leaving taxable profits of £43,036, which would result in a corporation tax bill of £8,177.

Assuming that the director is a sole shareholder with no other income, the company could then pay dividends of £34,859 which would attract a personal tax liability of £3,747. This would result in a total tax liability of £11,924, giving a tax increase of £2,192.

From 1 April 2023 for companies earning taxable profits over £50,000 are subject to the main rate of corporation tax of 25% with marginal relief available for taxable profits of between £50,000 and £250,000. If your profits are over this level the tax benefits of incorporation vary and at some profit levels may even result in a higher tax burden.

In summary: A major benefit of a company, however, is that while the company will pay taxes on annual profits you will only be taxed on the profits you remit. Therefore, at high levels of profits by reducing what you personally remit you can limit your overall tax burden compared to operating as a sole trader where you are taxed on your annual income irrespective as to what you take out of the business.

Tax considerations

The rate for corporation tax changed in April 2023.

Profits	Corporation tax rate
First £50,000	19%
Between £50,000 and £250,000	26.5%
Over £250,	25%

As of April 2023, all businesses qualify for 100% tax relief for qualifying expenditure.

Depending on the level of profit you make and whether or not you need to take all that profit out of the business, this may affect how you structure things. What is right now may not be as tax efficient in the future (or vice versa) and therefore it is worth considering a longer term view. Converting from one structure to another will incur costs, so these need to be factored in along with any potential tax savings.

Likewise, you also need to consider the costs of setting up the structure and any ongoing costs that might affect the overall position.

In addition, as a director and shareholder (of a company), you can only be paid dividends if there are sufficient retained profits within the business.

The level of your director's loan account (again, only in a company) may also impact on how you are remunerated from the company.

Get in touch

As you can see, there are a number of considerations and we haven't gone into all the detail here as this is best discussed with an adviser. You should seek appropriate advice to ensure you take the right approach for you.

How can Hazlewoods help you?

Hazlewoods tax experts can help with remuneration planning and corporate structure. Setting up the correct entity at the outset can avoid a reorganisation later down the line.

Hazlewoods Services

Annual compliance

If you choose to operate either as a sole trader or partnership, or to incorporate and create a limited company or form a limited liability partnership (LLP), there are certain compliance obligations and deadlines you will have to meet.

For a sole trader or partnership

From 2026 onwards (depending on gross income) HMRC are rolling out Making Tax Digital, where sole traders will need to report their income and expenses quarterly, and then submit the final year return.

	31 December 2027 year end	31 March 2027 year end
Income tax return	31 January 2028	31 January 2027
Income tax for a sole trader	1 January 2028 (50%) 31 July 2028 (50%)	1 January 2027 31 July 2027
Balancing payment	1 January 2028	1 January 2028

For a limited company or LLP

- annual accounts to be filed at Companies House;
- annual corporation tax return to be filed with HMRC; and
- annual confirmation statement, also filed at Companies House.

Annual accounts need to be prepared in a certain format, usually under the FRS 102 or 105 reporting regime – this is an exercise usually completed by your accountants. Typically, a filleted set of the final accounts is filed online with Companies House, providing an abbreviated picture on public record of your company accounts, with the profit and loss information omitted.

The corporation tax return is based upon the accounts and, again, is filed.

Companies House provides the company statutory details, such as share capital information and also updates for any change in shareholders. This is something your accountant can help you with, along with any other company secretarial support you may need.

Please see below an example of filing and payment deadlines for two companies, with a December and March year end. It may be worth considering changing your company year end, so compliance and payment deadlines fall at more convenient times for you.

	31 December 2027 year end	31 March 2027 year end
Accounts filing deadline	30 September 2028	31 December 2027
Corporation tax payment due	1 October 2028	1 January 2028
Corporation tax return filing deadline	31 December 2028	31 March 2027
Confirmation statement filing	14 days from anniversary of date of incorporation	

Please note, LLPs have the same Companies House filing deadlines as a limited company, but the tax report falls into the self-assessment regime for partnerships. In addition, the deadlines can be slightly different in the first year, depending on the date of incorporation.

Company secretarial services

The company secretary is responsible for the efficient administration of a company, particularly with regard to ensuring compliance with statutory and regulatory requirements and for ensuring that decisions of the board of directors are implemented.

Company Secretarial services cover:

- company incorporations;
- share restructuring;
- share transfers;
- annual confirmation statement filing; and
- maintenance of the company statutory registers.

As a limited company, you should also consider the location of the company's registered office, as this becomes the company service address, and appears on public record, as well as on invoices sent to customers.

Hazlewoods Company Secretarial team can provide company secretarial services tailored to meet your requirements.

Record keeping

All businesses are required to keep a record of their accounting transactions, and if the business is over the VAT threshold, or MTD threshold for sole traders, these must be in an electronic format.

Consider using:

1. Computerised accounting software which can be either
   a. Cloud software
   b. Desktop software
2. Spreadsheets

Benefits and drawbacks

There are pros and cons to each of these, we have some additional publications to assist in your choice, click here.

Your software should be used to generate and file VAT returns, raise invoices and record spending. It may be worth considering a bookkeeping service to assist with this.

Keeping on top of your bookkeeping will aid with the completion of VAT returns and year end statutory accounts and more importantly, should give you valuable management information to help you run your business. Accounting records should be retained for 6 years, after the end of the accounting period.

Payroll

If you plan to employ someone or are incorporating and, as a director, will be drawing a salary, you will need to register a payroll scheme with HMRC and file your payroll submissions under RTI directly with HMRC.

A pension scheme will also need to be set up if you have any employees who are not directors and are aged between 22 and pensionable age and earning more than £10,000 per annum.

Currently the minimum pension contributions are 3% for the employer and 5% for employees. These are compulsory up to the qualified earnings threshold of £50,270.

VAT

Registration

Who can register for VAT?

You can register for VAT if you are 'in business' and you make or intend to make 'taxable supplies', through any type of business entity.

Who cannot register for VAT?

You cannot register for VAT if either:

- you make only 'exempt supplies'; or
- you are not 'in business' for VAT purposes.

What are the main circumstances in which I must register for VAT, if I am doing business in the UK?

You must register for VAT if:

- your turnover from taxable supplies for the previous 12 months is more than the current registration threshold of £90,000, or if your taxable supplies in the next 30 days alone will exceed that figure; or
- you take over a VAT-registered business and the VAT taxable turnover for the previous 12 months, is more than the current registration threshold of £90,000, or, if your taxable turnover in the next 30 days alone, from the date of the takeover, will exceed £85,000.

What are the benefits of voluntary registration?

You could potentially obtain a cash flow advantage by being able to charge VAT on your sales and claim back VAT on your purchases. For example, if you sell zero-rated items and buy standard-rated items, HMRC would give you a refund of VAT. Or if you only sell to VAT-registered customers, you can pass on the VAT that you have to declare on your sales and reclaim VAT on your costs.

Making Tax Digital

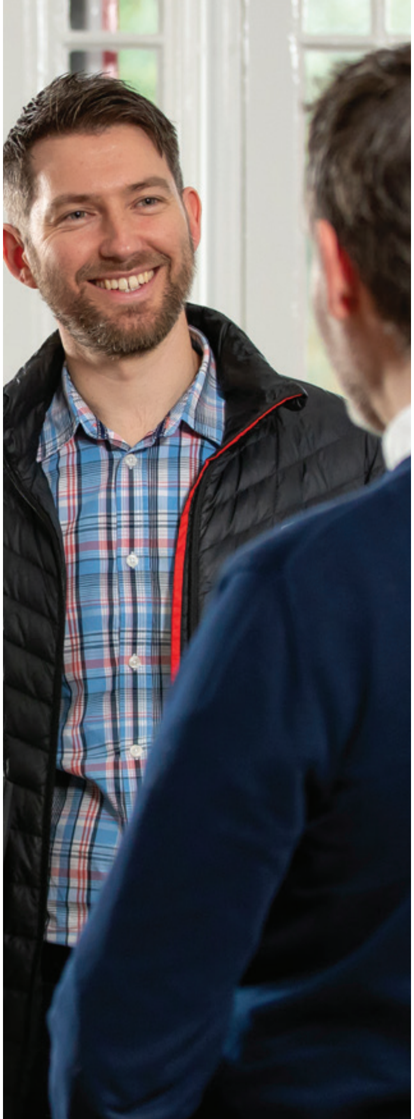
From 1 April 2019, all UK businesses that are VAT registered and above the £85,000 VAT threshold are required to keep their records digitally and submit VAT returns to HMRC using MTD compatible software.

Hazlewoods services

VAT is a complex area to understand; to ensure you are not missing out or leaving yourself open to any potential penalties, our specialist accountants have the knowledge and experience to guide you through the labyrinth of complex laws.

Our compliance services include:

- helping you determine whether you need to register for VAT;
- registering for VAT;
- completion of VAT returns;
- advising on particular transactions where complex tax rules apply;
- reviews of partial exemption agreements and calculations;
- deregistering for VAT;
- helping you prepare for HMRC VAT assurance visits, including a pre-inspection 'health check' and attendance on the site during any visit; and
- negotiating with HMRC on your behalf during any disputes.



Tax investigation service

HMRC could select you for a random tax enquiry regardless of whether you have done anything wrong. Even if HMRC do not find any errors, a basic tax enquiry could typically cost more than £5,000, and last around 18 months.

Our Tax Investigation Service means that should you or or your business suffer an HMRC investigation we can:

- provide you with full professional representation from tax and accountancy staff who already know you and understand your tax affairs;
- handle HMRC on your behalf by dealing with all correspondence and attending all meetings; and
- negotiate the best possible result for you.

We believe that our Tax Investigation Service provides a lifeline to our clients by providing low cost, valuable peace of mind, at a time when it is most needed.

The service includes:

- Protection from defence cost of up to £100,000 in the event that you are selected for an investigation.
- Directors/partners and their spouses will continue to receive personal protection when a company or partnership takes out a business subscription and we prepare the individual's tax return.
- 'Out of hours' helpline for unannounced HMRC visits.

Hazlewoods

How we can help you

1. Business plan support.
2. Evaluating the merits of different business structures.
3. Setting up the business and registering with HMRC for tax and VAT.
4. Setting up an accounting system.
5. Running your payroll.
6. Business mentoring and tax planning.

Meet your team

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SCAN ME

Receive our business updates via email

Hazlewoods LLP and Hazlewoods Financial Planning LLP produce regular updates, using our expert commentary to provide you with information about our services, events and topical premium business news.

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