

Gary's accountancy advice.....

CHOOSING THE RIGHT TRADING VEHICLE

Sole practitioners

These are sole owners who are in total control of their business, and responsible only to themselves. The success of their business will depend on their efforts, and any potential liability which may arise in the normal course of trade is unlimited.

Legal partnership

Legally defined as "The relationship which subsists between persons carrying on a business in common with a view of profit". You should always seek professional advice before entering into partnership, as there are many considerations to consider, such as payment on entering the partnership, exit strategies, entitlements, etc. Once again, any potential liability which may arise is unlimited, and in certain cases, partners can be held liable for others partners' liabilities.

Limited liability partnership (LLP)

This shares many features of a normal partnership, however it offers the members a reduced personal responsibility for the business debts. Annual accounts must be filed with Companies House, and these are available in the public domain.

Limited company

The main difference between a sole practitioner or partnership and a limited company is that a company is a separate legal entity which is treated as independent of its owners in the eyes of the law. The business owners will be the shareholders, and can choose to be directors too. All companies MUST file accounts with Companies House as with LLP's.

There is no right or wrong choice of trading vehicle. The choice of the correct trading vehicle will depend on the individual, on their long and short term plans, and careful consideration must be given before commencing to trade. An incorrect choice can cost business owners dearly if not all aspects are considered. You can change your trading vehicle after commencing to trade, and even if you have been in business for many years, however it can become complex to unravel, but not impossible.

Your choice should not depend on the short term costs or hurdles, but look at where you want to be in 1 year's time and then decide what is right for you.

RAISING FINANCE

You will almost certainly need to borrow money at some stage during your professional life. The main types of borrowing you may encounter are as follows:

Home Loans

A home will almost certainly be your first major purchase. With the mortgage market being increasingly complex you should take advice before obtaining a mortgage to find the product most suited to your needs.

Commercial Mortgages

It is vital that you speak with the correct people when looking to raise finance. Many institutions will offer cheap interest rates with many hidden charges. Speak to a bank manager who understands your business, your needs, and your market.

Your accountant should assist you in assessing the financial viability of the purchase. Preparation of financial information by a reputable accountant will greatly influence any prospective lender in deciding whether you are a good risk.

Hire Purchase

Finance can usually be arranged quite easy on hire purchase. This is a finance arrangement whereby the buyer could have full use of any assets purchased under HP, but doesn't become the legal owner until the end of the contract. If the buyer fails to make any instalments, the assets can be repossessed.

INCOME TAX, NATIONAL INSURANCE, VALUE ADDED TAX

The rate of taxation will greatly depend on the trading vehicle which you choose. Rates of tax can vary from around 21% to 47% depending on taxable profit, extraction of profits, and trading vehicle chosen. The timing of tax payments will also depend on the trading vehicle chosen. Your accountant will help you to calculate your tax, and should be able to identify whether you can make any tax savings by changing your status.

Self employed people are liable to pay two classes of National Insurance Contributions. Fixed rate Class 2 NIC are usually paid monthly by direct debit, with Class 4 contributions paid with any income tax. Directors of limited companies are treated as employees, and taxed accordingly.

Please remember, you have 3 months from commencing self employment to register with HM Revenue & Customs. If you fail to inform them, you will be fined. Limited companies can be bought off-the-shelf if required, and this can be backdated. However the older the company, the more expensive it becomes.

The current VAT threshold is £67,000. This means that once your turnover, i.e. sales is higher than £67,000 in any 12 month period, it is compulsory to register for VAT. If you turnover less than the threshold, you can still voluntarily register for VAT. There are different VAT schemes available for small and medium sized businesses such as the flat rate scheme, accounting for VAT on a cash accounting basis or on an accrual basis.

Registering for VAT should not be done as a cost saving exercise. While you can reclaim VAT paid out, it also means that you must charge VAT on all your sales. It also means that proper books and records must be maintained, and you would usually account for VAT on a quarterly basis. HM Revenue & Customs have become very heavy handed in the past few years, and will penalise you if you are late. If you register for VAT to collect back the VAT on large capital expenditure, and deregister shortly thereafter, HM Revenue & Customs can demand that you repay the VAT recovered.

YOUR ACCOUNTANT

Choosing your accountant is one of the most important choices for all business people.

Your accountant should be contactable, approachable and reliable at all times, and should be registered a professional accountancy body. This will ensure that they remain up-to-date with current legislation, are insured, and are accountable to a body should you have any problems. Your accountant should be an integral part of your business, and you should be flexible to your needs.

Your accountancy fees should always be agreed in advance, and will depend on how much work you wish them to undertake for you. Your choice of trading vehicle will also impact your accountancy fees, as some have more formalities than other, which requires more time from your accountant.

Always choose an accountant that understands your business and your needs. A good accountant is an excellent investment, and not an overhead.