

# Director's Guide

To running your own limited company

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## Message from the Managing Partner

Here at Cranleys Chartered Accountants, we strive not only to report on how your business is doing and what taxes you need to pay, but also to work with you to identify opportunities to improve the performance of your business, improve your profits and identify tax saving strategies.

We are a successful accountancy firm and our success lies with the fact that we are reliable and prompt and always keep you fully informed about what is happening with your affairs. We promise to avoid unnecessary jargon in all contact with you, keeping terms simple and understandable.

When it comes to helping, we can process routine bookkeeping, accounting, taxation and company secretarial requirements among a wealth of other things, thereby freeing up valuable time and resources for you to devote to running your business, but we are also committed to going the extra mile.

After writing books from Start a business, Develop a business which are now available in many accountant's websites, to Selling Out Secrets as well as the well known title of Property Tax Secrets, we have pulled together many years advice letters, emails and one page help sheets to make this guide that we hope you will find useful and informative.

As a client you will, of course, given the office and mobile numbers of your accountant. We will respond to all correspondence quickly and evening and weekend appointments will always be available. We are able to offer our services to you, wherever you are in the world.

For further information and a more detailed overview of our service, visit our website at [www.cranleys.co.uk](http://www.cranleys.co.uk).

Colin Davison – Managing Partner

## What do I need to do?

While we have a commitment to you as our client, in order to fulfil our promises, there are certain things that you, as the director of a small business, are obliged to do.

You must:

- Provide us with suitable records of accounting and taxable income to prepare your accounts and tax returns within 6 months of the relevant period to which they relate
- To provide any responses required within 5 days of being requested including signing and returning accounts and tax returns for submission
- Prepare financial statements for each financial year
- Keep proper accounting records and safeguard the assets of the company
- Make available to us all the company's accounting records and related financial information necessary to carry out our work
- Ensure the personal tax return is signed, dated and submitted on time

Cranleys can help not only with your figures and relieving you of the administrative burden of running your small business, but also with valuable advice to keep your accounts in order and slash tax bills.

This guide comes in handy as a reference point, providing practical solutions to everyday issues with your small business. Nevertheless, Cranleys are always on hand to provide supports at [www.cranleys.co.uk](http://www.cranleys.co.uk) or on 01256 830000.

Sit back and let us get on with the accounting and support!

## **Actions to take**

### ***For contractors:***

#### **Is my contract caught by IR35?**

1. If you are unsure about this we will be happy to review the contract for you and give you our opinion. There is a charge for this service.
2. We do provide a contract template, but cannot for legal reasons guarantee it's suitability in your situation. We do recommend the Professional Contractors Group([www.pcg.org.uk](http://www.pcg.org.uk)) and also have Insurance on offer for £17per month to cover for taxes and professional support if IR35 compliance is critical to you.

#### **Records to submit**

1. Our spreadsheet may be downloaded from [www.cranleys.co.uk](http://www.cranleys.co.uk)
2. There are instructions on completion, with an example at the front of the spreadsheet.
3. The spreadsheet relates to your Company's financial year not the tax year. Feel free to edit what you like, we can work with downloaded bank records so long as each line is edited for each business income and expense – details like telephone, mileage, food, travel, hotel – keep it simple and repeat related costs.
4. We recommend completion of the spreadsheet, or your own version, on a monthly basis as this will ensure that it doesn't take too long to do! Ideally you will have cleared a few months before you sit down to do the VAT return itself.
5. Please address your email with all supporting schedules in one go, not over several days to [accounts@cranleys.co.uk](mailto:accounts@cranleys.co.uk) and ensure all scanned copies are light filed on PDF only, not picture format like jpg/jpeg. Always on your subject line put your company name as well as on all documents you send.

## What is my Year End?

1. Each new company that we set up is incorporated or has a set up date on a particular date which will appear on the Certificate of Incorporation which we issue.
2. Unless you specifically request a different financial year end, your Company's first year end will fall on the last day of the month of the anniversary of incorporation. For example, if the company 'JEM Limited' was incorporated on 18th September 2010, their first financial year will be 30<sup>th</sup> September 2011
3. It is possible to elect to extend or shorten financial years, but there are usually no advantages for to this other than convenience of tidying up periods to tax year ends.
4. Company Statutory Books, which you will receive shortly after the Company is incorporated, should be filed away for safe-keeping; we only encourage and maintain electronic copies of these to be held.
5. Company Accounts have to be filed each year. This must take place within a period of nine months after the year end date. So for example, as 'JEM Limited's year end was 30<sup>th</sup> September 2011, their accounts must be filed by 31<sup>st</sup> June 2012.

### Limited Company

1. VAT is administered by H.M. Revenue & Customs.
2. It is not necessary to register a Company for VAT until its turnover hits a certain level.
3. We recommend, however, that registration takes place regardless, as this enables you to recover any VAT that you incur on things that you buy for the business (e.g. computer equipment/accountancy fees). There is no downside for you, as we will complete the quarterly VAT returns for you.
4. There is also the option to register for the VAT Flat Rate Scheme. Ask us for more information about this, as sometimes, going on this scheme is not beneficial.
5. VAT registration usually takes about 8 weeks, but this will not prevent you from invoicing your agency/client or reclaiming VAT on expenses. Until the Company is registered you simply raise sales invoices without adding on VAT.
6. Once the Company is VAT registered you must show the registration number on your invoices and add VAT at the appropriate rate.
7. You will receive a green VAT100 form on a quarterly basis which should be forwarded to us for completion as soon as you receive it, or if you have decided to have our office as your registered address, this will be taken care of already.
8. VAT payable must be paid by the last day of the month following the VAT quarter. There are penalties for late payment.
9. In order to recover VAT on things that you buy for the business you must obtain a "VAT Invoice" showing the supplier's VAT No. Always ask for a VAT invoice as they will not automatically be provided every time.

## Value Added Tax (Vat)

1. Any business expense you incur should be entered in the appropriate column of the spreadsheet.
2. If your contract is caught by IR35 then the only expenses claimable before calculation of the deemed salary are:-
  - 5% of net sales
  - Travel and accommodation expenses
  - Pension contributions
  - Certain professional subscriptionsYou should, however, still record all business expenses incurred on your spreadsheet so that you may see the true cost of running your Company.
3. Some of the more common expenses are:-
  - Company formation
  - Accountancy fees
  - Business travel and accommodation
  - Postage for business
  - Stationery for business
  - Business telephone calls
  - Mobile telephone and calls
  - Salaries
  - Employer's N.I. contributions
  - Contributions to an executive pension plan

## What expenses can I put through the company?

- Business entertainment
  - Equipment purchased for business purposes
  - Motoring expenses using fixed rate allowances
  - Computer software
  - Technical books and journals
  - Certain professional subscriptions
  - Use of home as office
  - Company bank charges and interest
4. You can pay your spouse a salary for acting as Company Secretary, but this is only worth doing if he/she has no other source of income.

### For you personally

1. Personal tax year end: ..... 5th April
2. PAYE & N.I. on salary: ..... 19th April
3. Self Assessment return due by: ..... 31st January, after year end

### For the company

1. Corporation tax payable: ..... within 9 months and 1 day of the  
Company's financial year end
  2. Annual Accounts to be filed: ..... within 9 months after the Company's  
financial year end
  3. Company's Annual Return: ..... Anniversary of incorporation date
- NB. Both the Revenue and Companies House levy fines/interest for late filing of returns.

## Important Dates

### ***Outside IR35***

1. We recommend a low salary (to equate to minimum wage levels) with any other monies being taken out in the form of dividends.
2. Salary level may, however, be dictated by pension requirements.
3. Once salary level has been determined we will set up a payroll and send you monthly payslips showing the amount to be paid to the Revenue for tax and N.I. and the net amount you can withdraw from the Company for salary.

### ***Inside IR35***

1. Unlike a standard "employee", if your contract is caught by IR35, then any tax due is payable by the following 19th April (i.e. not monthly).
2. During the year, when you complete our spreadsheet, it will show you each month the amount you need set aside for tax and N.I. and the "net deemed salary" which you can withdraw from the Company.
3. At the end of the tax year we will do one payroll run for you using your actual taxcode number to calculate the exact amount of tax and N.I. due for the year.

### **Payroll**

1. Dividends are a distribution of Company profits and do not affect the amount of corporation tax payable.
2. Provided the Company is trading profitably and funds are available, dividends may be declared at any time during the Company's financial year. Under IR35 there will usually be no funds available for dividend declaration.
3. It is necessary to complete a Dividend Declaration Form each time a dividend is declared (which we will supply you with).
4. Dividends come to the shareholder with a "tax credit", so there is no additional tax to pay unless your total income (i.e. salary, dividends, interest etc.) exceeds the basic rate threshold.
5. Dividends are paid in proportion to shareholding. It can be advantageous to allocate a share(s) to your spouse if he/she is a lower/basic rate tax payer.

## Dividends

### ***Corporation tax***

1. Corporation tax is a tax on Company profits and is not affected by how much dividend is paid. Company profits are simply defined as net sales less net expenses.
2. It is payable within 9 months and 1 day after the Company's financial year end.
3. When we have agreed your Company's annual accounts with you, we will prepare and present you with corporation tax computations and advise you of the date by which the tax must be paid.

### ***Income tax and National Insurance***

1. If you are outside IR35, income tax and N.I. is payable monthly on the salary you draw from the Company. You will receive a monthly payslip showing the amount due.
2. If you are caught by IR35, income tax and N.I. is payable by the following 19<sup>th</sup> April.

### ***Changing accountants***

1. Changing accountants is a very simple matter which just requires an exchange of letters.
2. There is no cost involved in the transfer process.
3. It is possible for the change to take place at any time during the year, although the start of a new Company financial year is the best time to transfer as it avoids any possibility of paying two lots of accounting fees.

## Taxation

### **1. How do I complete my bookkeeping?**

Simply email your support partner for our spreadsheet appropriate for your business.

Completion of the spreadsheet should only take about 15 minutes per month.

### **2. How will I be paid?**

This depends on whether your income falls outside or inside IR35. Full details on the IR35 provisions are included within this guide. If you are unsure, or would like advice as to how to avoid the IR35 provisions, please email [help@cranleys.co.uk](mailto:help@cranleys.co.uk).

#### *Outside IR35*

If your income falls outside IR35 we will provide you with a payslip each month which details how much you pay yourself and how much you need to pay to the Inland Revenue. However, the vast

bulk of your income is likely to come in the form of dividends. The reason for this is that salary attracts national insurance, whereas dividends do not. To declare a dividend, you simply complete a Dividend Declaration Form which is provided on the “Word” file and send it to us. There are no restrictions on how often and how much you can declare in the form of dividends, as long as there is money available in the Company bank account. Your salary level, i.e. that which attracts national insurance, is determined by two factors:

*Firstly*, if you are paying into or intend to pay into either a personal pension scheme or an executive pension scheme, the salary level is determined by the contributions that you make. We will be pleased to give you more information on this.

*Secondly*, your company will also be affected by the national minimum wage. This means that the minimum salary we recommend you pay yourself will be governed by minimum wage legislation.

### *Frequently Asked Questions*

#### IR35

If your income falls inside IR35 then your deemed salary, PAYE and national insurance will be calculated by the Cranleys spreadsheet. You should set aside this amount of PAYE/N.I. each month and then pay the Revenue by 19th April after the end of the tax year. We will produce an annual payslip which details these amounts. The rest of the money in the Company is yours to distribute as you see fit – this can be drawn as a lump sum, regular amounts, or a combination of the two.

### **3. What do I do with any official forms I receive?**

From time to time you will receive official forms from either Inland Revenue, Companies House, or Customs and Excise. When you receive one of these forms you should immediately forward it directly to us. The most common forms you are likely to receive are:-

- VAT Return Forms (VAT 100)
- Annual Return (363s)
- Corporation Tax Return (CT200)
- New Company Enquiry Form (CT41g)

Remember each time you receive one of these forms to send it directly to us immediately.

Alternatively, if you have our office as your registered address, we will receive all such forms and deal with them accordingly, informing you of any matters that arise.

### **4. How much corporation tax will I need to pay?**

If your income falls inside IR35 then you will usually pay no corporation tax (you will be subject to PAYE).

Outside IR35, corporation tax is payable 9 months and 1 day following the end of your Company year. On the summary sheet of the spreadsheet there is a corporation tax estimator which will give you the approximate amount payable. Please note that, because of the almost infinite possibilities with tax, this will not be an exact figure – it is only a guide. We recommend that you transfer this amount to a Company deposit account. Please contact us if you would like us to forward application forms to your recommended bank.

## **5. Will I have to pay additional personal tax?**

If you are a basic rate taxpayer (for rates see the basic tax rates and allowances file on the Cranleys “read me” file), you will pay no further tax on any dividends or salary you receive. If you are a higher rate taxpayer you will need to pay additional tax on any income that falls into the higher rate bracket.

## **6. Should I have a company car or use my own car?**

We generally recommend that, rather than having a Company car, you use your own car for business use. This way you can charge the Company a mileage allowance for each business mile you travel. This is tax free in your hands and tax deductible for the Company. The alternative is for the Company to own the car. This will mean that you will be taxed on the benefit in kind.

## **7. What expenses can I claim?**

Obviously this cannot be a comprehensive list, but it includes the most common expenses. If you are unsure whether an item which does not appear on this list is allowable, please contact us.

- Company formation expenses (tax relief not available)
- Accountancy fees
- Business travelling expenses <sup>o</sup>
- Postage for business purposes
- Stationery for business purposes
- Telephone calls for business purposes
- Purchase of mobile telephone and calls made
- Salaries paid by the Company to the Contractor and Contractor’s spouse for work done
- Employers N.I. Contributions
- Contributions to an executive pension plan <sup>o</sup>
- Business entertainment (tax relief not available)
- Equipment purchased for business purposes
- Either a mileage allowance or the costs of running a car (if car owned by Company, a benefit in kind charge arises on the Contractor)
- Computer software
- Technical books and journals
- Subscriptions (in most cases)
- Use of home office
- Company bank charges and interest

## **8. What can I claim VAT on?**

Once the Company is VAT registered, it is able to claim back any VAT incurred on business expenses, although not all expenses have VAT charged on them.

Expenses on which you can usually claim VAT:-

- Computer equipment and software
- Stationery
- Accountancy fees
- Legal fees
- Telephone
- Petrol and motor repairs (if claiming a mileage allowance the VAT element is 1p per mile)
- 50% of the VAT paid on either the car lease rental payments or car contract hire payments.

Expenses on which you cannot usually claim VAT:-

- Postage
- Technical books and journals
- The purchase of a car by the company
- Road tax and insurance for a company owned vehicle
- Public transport costs
- Payments to the Registrar of Companies
- Payments of Directors' remuneration.

## **9. Can I claim for use of home?**

Use of home is calculated as follows: add up all household running expenses, i.e. heat, light, insurances, council tax, water rates, rent (if paid), mortgage interest (but NOT mortgage). Divide this figure down by the number of main rooms in the house to give a cost of running the one room used for business purposes. This can then be claimed monthly or annually.

## **10. What is not included in your fixed fee?**

Whilst all the services detailed in our engagement letter are covered in our fixed monthly fee there are other services for which we may have to charge additional fees. These are:-

- IR35 contract advice
- Mortgage references
- Tax return for spouse
- Contracting abroad: varying fees depending on circumstances and agreed in advance
- In-depth investigations: again fees vary and depend on circumstances.

If joining part way through your Company year we will charge you the higher of 75% of the full year's fee and the actual months to which the period relates.

## **11. Can you provide references from existing clients?**

Subject to our client's prior agreement, we will be happy to provide you with a name and telephone number if you want to contact them to get their views on our service levels. The unsolicited references on the next page are a few picked at random from our files.

**TO DO**

**Client References**

## **DIRECTOR'S GUIDE**

### **What is the Director's guide?**

The director's guide is a unique toolkit designed to help you get more out of your business as a professional contractor.

### **What does it cover?**

The Director's Guide concentrates on three key areas:

- Setting up your business
- Making your business a success
- Getting to grips with your accounts
- Supporting growing businesses, helping them grow and seeing them thrive
- Passionate support for professional contractors and property investors

### **A brief history**

Cranleys Chartered Accountants is a firm of Chartered Tax Advisers and Chartered Accountants that can advise businesses wherever you are in the world. We specialise in the provision of small businesses services to property investors and contractors.

- We firmly believe that our clients deserve a personal as well as a professional service
- The set up of our company means that we are able to provide that service, wherever you are in the world
- Our long experience in dealing with Contractors has enabled us to put together an accounting/taxation package with complete fixed quotes for agreed services
- We can arrange your Company bank account with free banking and a high rate of interest
- We endeavour to allocate a designated accountant to each of our clients and you will be notified of any changes in accountants working on your case in order to maintain our personal service

### **Why talk to us?**

If you want to make money and be successful as a Director, you need to talk to us because:-

- As specialists, we understand your unique needs and believe that you deserve to be served by experts who can guide you painlessly through the maze of business opportunities and pitfalls.
- We will show you how to succeed - not just how to do your accounts.
- We don't just believe in theoretical advice - we will give you practical help and advice based on many years of management experience, working at the very highest levels in and for businesses of all sizes.
- We have banned the use of jargon so that you can really understand and benefit from our advice, given in simple terms.

## **Who are Cranleys Chartered Accountants?**

### ***What next?***

We do not believe that any business should have to pay for a service before it has had a chance to “feel the quality”. That’s why we have produced this Director’s Guide. We hope that once you have had a chance to read it you will want to try us out in person.

In fact we are so confident that you will find a meeting with us worthwhile that we will offer you a consultation meeting for free so that you can hear about how we can help you before you make any decisions. Why not call us for further details?

### **So you want to be a Director?**

What’s it all about? Being a Director is very different from being employed. There are more risks, but there are also a great many advantages. The Companies Act 1985 defines a director as “any person occupying the position of director by whatever name called”. A more practical definition is any person who has control over or who holds responsibility for the direction of a company’s business.

### **What’s in it for you?**

Every Director has his or her own reasons for liking it. Some of the most common are:-

- Being your own boss - which can be extremely enjoyable and satisfying;
- Freedom - Directors can choose when and where to work, when to take holidays, under what conditions you want to work
- Less tax - Directors who take professional advice can also greatly reduce the amount of tax they pay.

## Getting started in business

### *The pitfalls*

Of course, were directing your own business an easy and completely safe way to earn a living most people would be Directors. You will need the relevant skills and experience as the role of director carries wide ranging responsibilities. There can be heavy penalties if things go wrong. Only you can weigh up the pros and the cons.

Some of the disadvantages you will need to consider include:-

- Less security – Directing a small business involves a great deal of risk. As directors usually invest personally, they stand to lose a lot if their business fails
- Competition – it can be intense between small businesses
- Hassle - because you will be running your own business, there will be forms to fill in, rules to obey and accounts to keep;
- You will be on your own - as well as sometimes being lonely, being your own boss means, for example, that nobody will pay you when you take a holiday or are ill.

### *The next step*

If directing is still attractive to you, and you believe you can cope with the disadvantages, the next step is to do some research. Don't give up your job (or spend money setting up a company or talking to an accountant!) until you are sure that there is a market for your small business. Once you've done your research, continue reading to find out what you should do next.

## Setting up your business

### *Working as a sole trader*

Sole traders have to register with the Inland Revenue as self-employed.

### *Setting up a Limited Partnership or Limited Liability Partnership (LLP)*

If setting up a partnership, you need to seek advice you continue. A LLP is a partnership including one or more general members who are liable for the business debts and obligations. Partners' liability is restricted to the amount they invest in the company. The LLP, not individual partners, is responsible for any debts run up.

### *Limited company*

You set up, own and run your own limited company. You will usually appoint yourself as a director and be the major shareholder. In the eyes of the law the Company has a life of its own. For example, it will actually be your Company that enters into contracts, and not you. In most cases it will also be the Company, and not you, that is responsible for its own debts. What this means in practice is that if the company gets into difficulty and goes bust, you shouldn't lose your house or other property - this is because you have what is known as "limited liability". Many people find that this gives them real peace of mind and allows them to sleep more easily at night. You will be in complete control of the Company. But of course this position of power also brings with it responsibilities - many of which are not at all obvious to the first-time Company Director. For example, if you act dishonestly or recklessly- e.g. buying something you know the company can't afford - your house and other property could still be at risk. Therefore it is essential to take professional advice to make sure that your limited company is more of an asset than a liability! There are numerous tax incentives to setting up a limited company, but also costs and implications that must be considered. You must seek expert advice from an accountant or solicitor to discuss implications and weigh up whether incorporating is the best way to go.

## Introduction

This section gives you an overview of what you must do if you have decided to run your business as a limited company.

### **Creating a company**

Limited companies do not exist until they have been officially created - the process of creating a company is usually known as "company formation". The process can be completed within days by Cranleys.

## **Decisions**

You will need to make some initial decisions at the time your Company is formed. For example your company will need:-

- A registered office - this is simply an official address to which official letters can be sent and where certain records must be kept - it can be your home address;
- At least two “officers”: again this can be you and your husband/wife, usually with you as the Director and your “other half” as the Company Secretary.

## **Creating your Limited Company**

### ***Introduction***

This section briefly describes some of the main responsibilities involved in running your limited company.

### ***Accounts***

Your Company is legally obliged to keep “proper books and records”.

- These records must be kept for at least three years (or six years if your Company is VAT registered);
- These records must be summarised in a compulsory format at your year end, known as your statutory accounts;
- These statutory accounts must show a “true and fair view” of the Company;
- A copy of these statutory accounts must be sent to Companies House in Cardiff within 10 months of your year end;
- In some cases they must be audited by a registered auditor(see the next section for further details).

### ***Audited accounts***

It used to be compulsory for every Company to have its accounts audited. Fortunately, the rules have now been relaxed so that, in most cases:

- Companies with annual sales of less than £1m are not forced to use an accountant at all - although, given that there are fines if the Directors make a mess of their accounts, it is probably unwise for Contractors to adopt a DIY approach to their statutory accounts.
- Larger companies must still have their accounts audited, but this is unlikely to affect most Contractors.

## Running your Limited Company

### *Companies House*

Companies House is a government agency that keeps details of every single limited company in the country. For example, you will have to send Companies House the following:-

- An Annual Return - this is a standard form that will be sent to you each year to complete and send back;
- You must also notify them (using standard forms) of certain changes to your company - e.g. changes in Directors, registered office and shares etc.;
- You must also send them copies of any mortgages or charges the Company has given over its assets;
- Unfortunately there are dozens of other forms you may have to fill in - so once again, professional advice is essential.

### *Corporation Tax*

This is the special type of income tax that companies must pay on their profits. Your Company must send the taxman a "Pay and File" tax return after each accounting period.

This is payable after 9 months and a day from the year end. If it is your first year, this will be a few days sooner.

### *PAYE*

PAYE is the "pay as you earn" type of income tax that must be deducted from wages and salaries before they are paid. We will register your Company for PAYE and undertake all the administration. This involves:-

- Completing a PAYE registration form;
- Keeping payroll records;
- Paying PAYE and national insurance every month - we can also show you how to keep hold of your money for longer by opting to pay quarterly rather than monthly.

### *VAT*

VAT is charged on many goods and services. You must register for VAT if your turnover exceeds a certain amount, although you can voluntarily register if your turnover is below this. We would recommend that the Company be registered, which we will do along with all the administration. This will involve:-

- Completing form VAT1;
- Keeping detailed records;
- Making quarterly VAT returns.

## ***The rulebook***

Companies (and their Directors - i.e. you!) must obey hundreds of pages of rules and regulations - for example, tax law and company law. Some of these rules are obscure and pointless - but unfortunately being unaware of, or disagreeing with a law is no defence. The best advice is to talk to an accountant to make sure you stay on the right side of the law.

## ***Pensions***

One of the drawbacks of being your own boss is that nobody else is making any plans for your retirement. So if you want a comfortable retirement you will have to make your own plans - and for most people this means setting up their own pension scheme. Fortunately the government makes this a little bit easier by allowing you to claim tax relief on your pension contributions.

As pension scheme contributions are a tax allowable deduction for IR35 purposes it is very important for Directors caught by IR35 to carefully review this subject.

## ***Life insurance***

What happens if you are ill or injured? What if you die? How will your bills be paid, and who will look after your family? When you are employed in a regular job the answer to some of these questions may be “my employer will make sure we are alright”. Unfortunately when you are your own boss, you are your own employer – so if you don’t make plans for illness, injury or death, nobody else will do it for you!

Most people decide that the best way of protecting them and their family is to take out insurance. Two of the most popular types of insurance are:-

- Life insurance - which pays out a lump sum if you die;
- Permanent health insurance - which pays you a weekly “wage” if you are unable to work due to illness or accident.

## ***Best advice***

We strongly encourage all Directors to get the best possible advice on how to plan for retirement, accident and illness. That’s why we recommend that you speak to our specialist advisers who can help you with long term business planning.

Use this checklist to make sure that your contracting business has started off on the right foot:-

1. Have you researched the market, and are sure that you can earn a living as a Director?	Yes/No
2. Are you sure that being your own boss is right for you?	Yes/No
3. Have you discussed how you should set up your business with Cranleys Chartered Accountants?	Yes/No

4. Have you asked Cranleys to set up your Company?	Yes/No
5. Have you decided on your registered address (this can be the Cranleys office)?	Yes/No
6. Have you decided who your Director(s) and Company Secretary will be?	Yes/No
7. Do you understand your responsibilities as a Company Director?	Yes/No
8. Have you registered your availability with all the best agencies in your industry?	Yes/No
9. Have you opened a bank account in the name of the Company?	Yes/No
10. Have you spoken to our advisors at Cranleys about your long term business plan?	Yes/No

If you have answered “No” to any of these questions call Cranleys now on 01256 830000 for a no-obligation chat about what you should do next.

## The 'Getting started' Checklist

### ***Who is this section for?***

This section of the Director's Guide is designed to show you how to run your business as a real business and be successful.

### ***Success factors***

To achieve and sustain business success in the current economic climate it is vital that you pay attention to each of the key factors that determine the often very slim difference between success and failure. This section of the Director's Guide addresses each of these key factors, and contains tips and suggestions that could help you to increase your cashflow and maximise your profits.

Obviously, not all of these suggestions will be relevant to your particular business and you must, of course, fully explore the implications, costs and benefits for your own business before deciding which suggestions to adapt and adopt.

### ***Areas covered***

The key areas covered in this section of the Director's Guide are:-

- Pricing for profit;
- The importance of information;
- Minimising your costs;
- Getting the most from your advisers;
- Managing to succeed;
- Something for nothing.

## **Making a successful business**

### ***Introduction***

Setting your prices is probably the single most important and difficult decision that you will make for your business. To succeed you must "Price for Profit".

### ***Successful businesses***

Most successful small businesses realise that, as niche players, what they should offer their customers is a high quality product with unparalleled standards of service at a price that is fair. They understand that they should not, and ultimately cannot, compete on price, and certainly not on price alone. They also realise that they cannot afford to project themselves as being "cheap", since that has all the associated connotations of also being "nasty". Instead they must emphasise and market their quality, service and (possibly long-term) value for money.

### ***Pricing for profit***

### **Unsuccessful businesses**

Many unsuccessful small businesses believe that, as relatively low cost newcomers to the market, the only way that they can fight for a share of the market is by undercutting their competitors' prices. As a result, small businesses often inadvertently adopt pricing strategies that reinforce the "cheap & nasty" image, preventing them from winning quality conscious customers, and producing a low sales and low profit business that will inevitably struggle to survive.

Probably the most important factor in determining whether a small business will succeed or not is whether that business adopts a "Pricing For Profit" strategy. What follows in this section is an introduction to the pricing for profit and selling techniques that Cranleys have seen making a very real contribution to the success of small businesses.

### ***How to raise prices***

If you are locked into low contract prices there are a number of techniques that you can use to raise your prices without losing your customers:-

- Be prepared to explain why your prices have risen;
- Consider some "non-price" price increases such as: charging for travelling, out of pocket expenses, the hire of any special equipment you provide and insurance etc.;
- Introduce a surcharge for any "special work" - i.e. at anti-social hours, or requiring special tools or skills, or work that requires you to carry out private research or training;
- If you are paid by the hour make sure that you have an accurate method of recording all the time you spend on a contract - the best way of doing this is by keeping a daily time-

sheet and accounting for every minute between when you start work and when you finish;

- Negotiate yourself out of having to do those time-consuming tasks that are of only limited value to the customer and for which you are not adequately rewarded - but only pass on some of the time-saving in terms of lower contract price. The net result should be that you get paid more for every hour of effort;
- Consider charging interest when your customers don't pay you on time.

### ***Justify your prices***

You must be prepared to justify your prices. This involves having your defence prepared in advance and is likely to include:-

- Knowing the prices of your most expensive competitors;
- Demonstrating the savings and benefits from using you rather than other businesses;
- Demonstrating that your service is hugely superior and therefore slightly more expensive because, for example, you have a better CV, you have done identical work before, you have exactly the right skills, you work quickly and accurately and have impeccable references to prove it, etc..

### ***Discounts***

Most small businesses don't realise that their single largest element of cost is one that probably doesn't even appear in their accounts discounts awarded to customers. Discounts are a cost in exactly the same way as wages or overheads, and yet even in the biggest companies they are often literally "given away", with little serious thought to their true implications for the success of the business. To manage your discount costs properly you should:-

- Monitor the total amount you actually charge your customers as a percentage of total sales value you could have earned if you had billed your work at your full hourly or daily rate. If it is more than 95% you are doing well. But if it is less than 85% you are probably giving away too much in discounts (or perhaps your full hourly/daily rate is too high- so double check it by doing some research).
- Use selective discounts as an aggressive component of a strategy to attract new customers and to generate additional sales, e.g. in the form of introductory discounts or discounts that are only triggered once a customer reaches a set level of purchases, etc.. But do not allow your niche business to get locked into low prices because of uncontrolled over-use of discounts for tactical rather than strategic purposes. Remember, low prices very frequently lead to a spiral of lower prices and usually to an even lower chance of survival.
- Try to link a customer's discount to them giving you a target amount of work, and then present that discount in as favourable a light as possible. For example, a 25% discount on work over and above a target level of £10,000 actually costs your business less on a customer that you expect to pay you £12,000 than would a flat rate discount of 5% (i.e. 25% of the difference between £10,000 and £12,000 is £500 - whereas 5% of £12,000 is £600 - so a "bigger" discount can actually cost you less!).

Of course a 25% discount sounds much more impressive - and will certainly help you to stand out in the crowd. It is also highly likely to encourage that customer to channel more of his work through your business in order to trigger the higher levels of discount.

Of course the key to the success of this strategy is to set the targets at an appropriate level for each customer so that they find the potential discounts attractive and your business finds them profitable because they generate genuine extra work that you wouldn't otherwise have been given.

### ***Settlement discounts***

Try not to offer settlement discounts. Not only do they rarely encourage prompt payment, but once established they are frequently claimed and deducted from remittances, even by slow payers. They are also unlikely to be very important in influencing a professional buyer in his decision whether to use your services. This is because buyers are normally evaluated on, and think in terms of, the headline contract price that they negotiate with you, and not the subsequent settlement discount that you give on your invoice.

It is, however, sometimes worth offering discounts for cash in advance, since not only does this help you to get paid quickly, but it is often attractive to the buyer. This is because these discounts actually appear on your invoice, and are usually regarded as the buyer's responsibility - so he will be able to take the credit for negotiating them.

What follows are a few ideas that we have seen some Contractors use to successfully increase the level and profitability of their sales.

The easiest customers to sell to are your existing customers. Don't overlook them. Nurture and pamper them. They are probably your business's biggest asset, so make sure that you "use them, and don't lose them".

- Referrals are the cheapest and usually most potent form of marketing for a small business and must not be left to chance. Encourage your customers to refer or recommend you to their sister companies, suppliers and contacts. If you have done a good job and they are feeling guilty about letting you go, they will probably bend over backwards to help you in order to ease their conscience!
- Find out what your customers actually want and, if necessary (re)design, and (re)present your service so that it matches more closely what they want, rather than merely being what you are prepared to offer. For example, if they want you to work outside normal office hours, to provide your own equipment, or to offer a total satisfaction guarantee, try your very best to give them what they want. You'll be streets ahead of the competition, and you'll be able to charge more!
- Identify those contracts or customers which are most profitable for you and concentrate your sales efforts on trying to repeat or replicate them;
- Conversely, as every gardener knows, it is sometimes necessary to severely prune some parts of a garden to enable the remainder to flourish.

Too many Contractors persist with low value contracts or customers, some times out of a misplaced sense of loyalty or optimism, but more often because they don't realise that they could be earning more money elsewhere.

In other words you need to emphasise that what you are selling is a high-quality service that exactly matches their needs - and not a cheap and nasty short-term "fix" that they may live to regret.

## How to Sell Better

### ***Overview***

Information is the key to understanding the successes and failures of your business and the key to making appropriate business decisions to avoid future failures and capitalise on successes.

### ***Accounting information***

This information should not just take the form of annually produced accounts prepared by an accountant for tax purposes. That sort of information is usually at least a year out of date and is, in any event, prepared for the completely different purpose of satisfying the tax authorities.

A proper accounting and costing system is not a luxury that small businesses can do without, it is a necessity that they cannot afford to be without.

### ***What you need***

The type of information that even the smallest business should generate includes:-

- A regularly revised business plan and financial forecasts;
- Books written up on a daily or weekly basis;
- Accounts produced on a monthly basis;
- Regular (i.e. at least monthly) reconciliations between your cashbook and the bank statements;
- A monitor of actual trading results against those predicted in the forecasts;
- Regularly revised cash-flow forecasts covering at least the next three months, and
- A monitor of the cost and profitability of each of your contracts.

### ***The importance of information***

There is very little in this list that most Directors should not be able to prepare for themselves after they have read the Accounts Made Easy section of this Guide.

### ***Data Protection Act***

If you use a computer to store information about any living individuals then you maybe required to register under the Data Protection Act. Non-registration is a criminal offence for which fines plus costs may be imposed in the Magistrates Courts. Further details can be obtained from the Data Protection Registrar.

### *Introduction*

Whilst the precise details of how a business can minimise its costs varies enormously according to the type of contracting work it is involved with, there are nevertheless a number of techniques which can be used to good effect by all Director.

### *Budgeting*

All Directors should prepare comprehensive and up-to-date budgets and continuously monitor their actual performance against those budgets. Variations from budgets should be investigated and the reasons for them fully understood, with corrective action being taken promptly where necessary. A properly designed budgeting process can, in itself, help to reduce your costs if every item to be included in the budget has to initially be justified from first principles. The alternative, and wrong, way to set your budgets is to include everything at last year's level plus inflation, on the basis that "if I spent it last year I must need to spend it this year".

### *First principles*

The "first principles" of budgeting involve answering the following questions about very single element of your costs:-

- Can it be eliminated without significantly damaging the business's profitability?
- Is it over-specified for the needs of the business, and could the specification be trimmed to save costs i.e. are we using a Rolls Royce when a Mini Metro will do?
- Does it cost more than the benefit it delivers?
- Can the same outcome be achieved more cheaply in some other way, perhaps by changing company procedures or by installing a new computer etc.?
- Can it be done more cheaply by an outside sub-contractor?
- Can it be done less frequently without harming the business?
- How do other businesses achieve the same outcome?
- If you were to start in business again would you still decide to incur this type of cost?

### *Minimise your costs*

- Is there any duplication of effort or can the task be combined into one that is already carried out elsewhere in the business?
- Is somebody responsible for the cost and how do they go about discharging that responsibility?
- When was the last time competitive price quotes were obtained?
- Has the choice of supplier become a matter of habit and convenience rather than sound economic sense?

Whilst such questions should be asked of all costs, it clearly makes most sense to initially concentrate on the largest elements of costs, since they are likely to have the greatest potential for reductions.

## ***Forecasts***

When combined with sales forecasts, these cost budgets should also enable you to forecast your cash flows to identify whether you are likely to need an overdraft facility. They will also show you when and how much you may need to borrow, and this will help you to negotiate the necessary facility with your bankers well in advance of the event. Not only does this budgeting discipline enable more effective business control, it also creates a very good impression with your bank manager, making him more likely to accept your overdraft request.

## ***Professional Support***

In principle, budgeting and forecasting are fairly straightforward. However, it is usually advisable to ask for assistance from an experienced accountant. He will be able to use both his expertise and sophisticated computer technology to enable your forecasts to be accurately and speedily produced in response to changes in circumstances at the “push of a button.”

## ***Purchasing***

To get the very most out of every pound you spend you should:-

- Select your proposed purchases after careful research - it can be very expensive to buy the wrong thing. Make full use of independent brokers and advisers if they available on a no-fee basis (as in the case of insurance brokers and independent financial advisers). And in the case of purchasing general equipment, consult publications such as “Which?” and “What PC?”.
- Select a supplier for your chosen purchase based on a pre-prepared list of criteria such as price, availability, location, delivery time, credit terms, training, after-sales support and guarantees. If one supplier is ahead of the field in all areas other than price, then point out their price disadvantage and ask them to reconsider their price, since you would very much like to buy from them today if only they were a little less expensive. This disarmingly simple tactic has stood the test of time as a method of worrying the seller into believing that a genuine and immediate sale will be lost unless he accommodates the request.
- It is also a good idea to save one element of your required package to the end of the negotiations and then slip it in almost as an afterthought, e.g. “Oh yes, In early forgot, we do insist on receiving 60 days credit” or “we do take a 2% early settlement discount, I assume that will not be a problem?” Many salesmen, fearful of the lost sale and the associated waste of their time, will not argue the point, preferring to attempt to justify their generosity to the accounts depart mention their return to the office.

## ***Saving money***

Other ways to cut the cost of being in business include:-

- Offering prompt payment/cash in advance in exchange for a discount;
- Ensuring that all quantity discounts due to your business are received;

- Discussing with suppliers methods of reducing unit costs. Many suppliers will offer discounts if you order in a batch size that is economic for them or accept delivery on a day that is convenient for them;
- Wherever possible obtain samples or items on approval to enable you to fully evaluate their suitability. Also try to negotiate “sale or return” arrangements, even if they are not (yet!) standard practice in your industry;
- To avoid subsequent confusion, disagreement and unnecessary expense, confirm all orders in writing, stating clearly the product details, price, credit terms, delivery method and time, and that “time is of the essence” (the latter statement will usually enable you to cancel the contract without penalty should they prove unable to deliver on time).

## ***Checking***

Physically check the quality and quantity of items delivered. Sign any delivery documentation with the words “received unchecked” if you are not able to fully satisfy yourself of their suitability at the time of receipt.

On receipt of the invoice it is important to fully check its contents since, even in the age of computer invoicing, it is surprising how many errors, usually in the supplier’s favour, they contain. Therefore you should:-

- Check the quantities invoiced match those received;
- Check the price charged matches the price at which you ordered them;
- Check that no unexpected extras have been added to the invoice for postage and packing etc.;
- Check the arithmetical accuracy of the invoice, including the VAT, if any;
- Refuse to accept any invoice which includes VAT but does not quote the supplier’s own VAT number;
- Send the invoice straight back if it is wrong.

## ***Payment***

Do not settle your account until the agreed credit period has expired and you are fully satisfied that the supplier has met his side of the contract. In fact, it is now common business practice to consider taking further credit - especially if there remains some small element of dissatisfaction, such as an invoicing error - until the issue has been resolved to your full satisfaction.

However, it is important to recognise that the Inland Revenue and HM Customs and Excise must be paid promptly, since they can and will impose legally binding charges and penalties for late payment.

## ***Professional advice***

Whilst professional advice is often essential to a small business, it can sometimes be both expensive and confusing. However, it need be neither expensive nor confusing if you follow the basic rules to getting the most out of your professional advisers:-

### *Background knowledge*

Try to obtain a little background knowledge of the subject before consulting the professional so that you are better equipped to understand the issues, ask intelligent questions and act upon the advice given. This will ensure that you use up as little of his expensive time as possible.

### *Free consultations*

Take advantage of free initial consultations offered by solicitors and accountants, etc., but don't allow them the luxury of using the meeting merely to find out about you and your business without actually providing any advice. To get the most out of these free consultations send them a written statement of your business situation before the meeting (a sort of "business CV", explaining who you are, what you do, how, where and for how long, etc.) and set out the problem/issue on which you need their assistance. In this way they will have had enough time and background information to give the issue some serious thought and the resultant "free consultation" should actually include some free advice.

### *Be tidy*

Keep your business affairs as tidy as possible. Keep on top of tasks such as bookkeeping and constantly ask your advisers how you can improve your "housekeeping" to make their task easier (and hence cheaper). If you do all that they suggest then you are in a far stronger position to negotiate a lower fee. In contrast, individuals who, for example, present their accountant with a jumbled cardboard box of invoices and receipts not only run the serious risk of not having the necessary information to run their business successfully, but they also tend to have unnecessarily high accountancy charges.

## Getting the best from your accountant

### *Introduction*

Success in business means mastering the art of management. Directors must still learn how to manage:-

- Their time;
- Their money - in particular, the money that is owed to them, but hasn't yet been paid to them.

### *Time*

Time is perhaps the most misused and misunderstood asset of all in many businesses. Since a salary of £25,000 per annum equates to about 24 pence a minute, inadequate time management can be just as costly to your business as, for example, leaving your car unlocked and allowing a thief to steal your toolkit laptop computer. Just imagine how angry you would be if the person to whom you loaned your car said "I just don't know where your toolkit has gone - it was on the back seat of your car when I last saw it!"

In contrast, recall your sense of resignation every time you have thought to yourself, "I just don't know where my time has gone - it was there when I last looked!" Both of these situations are examples of sloppy asset management – and both rob your business of some of its profit. But poor time management also robs you personally of something totally irreplaceable and invaluable your own time.

### *Time management*

A large number of time management systems and tools have been developed and agree at many books written on the subject. However the essence of most of them can be distilled into the following key points:-

- Understand how you currently spend your time, perhaps by keeping a detailed diary over a period of, say, a week.
- Analyse which of those activities add the most value and profit to your business and those that add the least.
- Devise a strategy to ensure that you focus your time and efforts on the former and not the latter.

## Managing to succeed

### *A strategy*

This time management strategy is likely to include:-

- Using some form of priority action list, perhaps prepared at the end of the day, outlining the tasks which must be accomplished the following day;
- Tackling priority tasks first, and not falling into the common trap of doing the most enjoyable tasks first;
- Persevering at the task until it is finished - constantly stopping and starting a task is a classic symptom of time-wasting. Avoid paper-pushing by handling and dealing with each piece of paper and its related action only once;
- Overcoming the natural tendency to believe that "I can do it better than anybody else and, therefore, I must do it". If you have staff, train them and then delegate responsibility and authority to them, delegating as far down your organisation as practicable;
- Using the telephone/email as much as possible. Both involve far less time than face to face meetings.

There are sadly a great number of unfortunate, undesirable or just plain unscrupulous potential customers in the market who can inadvertently or deliberately cost your business a great deal of time and money by not paying their debts. There is only one thing worse than having no work - and that's having lots of work, but not getting paid for it! To minimise the risk of this happening to you, you should take the following credit control precautions:-

- In most businesses it is normal practice to make detailed credit enquiries into any new customer requiring credit terms. However this is not always "politically correct" for Directors. Therefore we usually suggest a low-key approach to be the most appropriate. In particular, we recommend Contractors to contact a specialist credit reference agency such as Dun and Bradstreet in order to obtain a detailed (and private and confidential) credit reference on every new company they would like to do business with. This reference should then be discussed with your accountants before you make a decision or sign a contract.
- In the credit vetting process you cannot afford to rely solely on the apparent size of the organisation (or claims as to its size) or on the initials and "qualifications" of its representatives. Even the largest companies don't always pay their debts, and initials and qualifications are not always what they seem.
- Be aware that recovering unpaid debts from customers based in Scotland is considerably more difficult given the peculiarities of the Scottish legal system.
- Once you have decided to extend a customer credit terms, then set them a credit limit and notify them of both the limit and the general terms of trade upon which you are prepared to do business with them. Also ensure that these terms are stated in your contract and on your invoices.
- Credit vetting is not a one-off exercise, it should be continuously monitored and re-evaluated, taking account of both the customer's payment history with your own business and by regularly updating the externally available information such as that provided by Dun and Bradstreet.

- Withhold further credit from any customer who has exceeded his credit limit or whose account is significantly overdue. Alternatively make an arrangement to supply him with, say, £500 of extra work for every £1000 that he pays off his account.
- Always ensure that the details on your invoices are accurate, since inaccuracies will not only damage your credibility, but will frequently be used by the customer as an excuse for delaying payment.

### ***Credit control***

- Send invoices as soon as possible - not only is this necessary to establish the correct date for VAT purposes, but it also starts the credit-period clock ticking.
- Ensure that your debtors listing enables the age of all outstanding debtors to be accurately identified and monitored, so that all risky debts can be identified and acted upon at the earliest opportunity.
- Get to know the person who writes the cheques - and become their “friend”.
- Chase overdue debts at regular intervals, keeping a log of all “explanations” for non payment. Initially use the telephone to request payment, and after the second phone reminder switch to using both the telephone and letters, progressively sharpening the tone and content of the requests.
- It is often helpful to bring the problem of the unpaid debt to the attention of the actual user of your services, and quietly suggest to him that you cannot guarantee future service until the account is settled.
- Be systematic and ruthless over debt collection - it can often require as much effort as winning the original contract. However without the extra effort the contract is actually worse than worthless, since it has cost you money but has earned you nothing.
- Ultimately if your customer persistently fails to pay it may be appropriate to make a claim through the small claims court, a relatively simple and inexpensive process that frequently yields the desired result.

### ***Overview***

The following is a selection of the free or very low cost training, advice and business resources that are available locally to help small businesses get the most out of their staff, their business ideas and themselves.

### ***Free training***

The local Business Links provide excellent free (or low cost) training in key business skills such as marketing, selling, negotiating and bookkeeping. They also provide free counselling and support, and are an invaluable sounding board for your business ideas, issues or problems.

### ***The FSB***

The non-profit making Federation of Small Business has a free telephone legal hotline staffed by experienced professionals and which is available to members on a 24 hour a day basis. Annual

subscription, which includes a number of other benefits, depends on the number of employees in a business and starts at £60. They can be contacted on 020 759 28100.

### ***Free consultations***

Many professionals offer free consultations (see above on how to get the most out of this offer). In the case of solicitors, the Law Society will arrange a free consultation with a suitably experienced local lawyer if you ring them on 0207 242 1222.

### ***Free banking***

Most banks offer new businesses one year's free banking providing they stay in credit. Our recommended bank, Santander, offers free banking indefinitely. Your local bank manager may also be able to offer advice and assistance. However, in our experience, not all managers are equally willing or able to provide cost effective advice and they may occasionally have a vested interest in giving advice that is primarily in the interests of the bank, rather than of its customers. If you have a good bank manager, use him!

## **The freebies – something for nought**

### ***Free books***

Local libraries should not be overlooked as a source of reference material and trade directories, etc.. It is also worth remembering that the libraries of colleges and universities generally welcome members of the public and often contain extremely good business reference sections.

### ***Free health and safety***

Free advice on Health and Safety considerations and legal advice obligations is available from the Health and Safety Executive.

### ***Free software***

Practically free “Shareware” computer software is available for about £3 per program for a period of license-free evaluation. All types of business software are available from spreadsheets and word-processing to databases and accounts packages. Newsagents sell shareware magazines such as “PC Shareware Magazine” containing full details of products and prices.

### ***Free accountancy***

And finally, CRANLEYS Accountancy offer free accountancy advice - we’ll spend as much time with you as you need at an initial meeting designed to solve your problems – and we won’t charge you a penny. Why not ask for more details of this unique offer?

### ***Tell me more***

Understanding accountancy and finance is like driving a car:-

- It fills most people with dread and fear;
- But once they’ve had a bit of experience it becomes second nature and they wonder what all the fuss was about. They probably even start to do it without thinking (just as drivers instinctively change gears etc.).

### ***Numbers, I do not need anything complex?***

Many people will be interested in your accounts. For example:-

- Your bank manager - since they will help him to decide whether to lend you money;
- Your building society - they will need to see your accounts before they will give you a new mortgage;
- The taxman - he needs to see your accounts to work out how much tax you owe;
- Your suppliers - who might use your accounts to decide whether you are a good credit risk. But most of all, you should be interested in your own accounts.

## Accounts made simple

### ***Who are accountants?***

Unfortunately, in the western world and all over developed countries the regulations for calling yourself an accountant is controlled. In the UK however, the years have gone past and there is nothing to stop anybody calling themselves accountants, you can do so tomorrow listing it in all the main search engines and local papers. You can even add a few extra words and no-one will know.

It is therefore vital, having spent much of my time training in life to have the words Chartered Accountant in our name you understand the differences.

This means that it is vitally important to understand the three main types of accountants.

1. Bookkeepers - Their role is largely to “keep the score” by recording the financial effects of what a company has done. They are usually the best people to do routine accounting work.
2. Qualified accountants and tax advisers - These are experienced professionals who have undergone rigorous training and passed extremely difficult exams. There are a number of leading qualifications - but if you look for the letters ATII, ATT, ACA, FCA, ACMA, FCMA, ACCA, CA or FCCA after the accountant’s or tax adviser’s name you should not go too far wrong. Qualified advisers are best at dealing with the non-routine aspects of your business, e.g. helping you to increase your profits, produce your statutory accounts and pay less tax.
3. Unqualified tax advisers and accountants - There are also many unqualified people. Before deciding to use the services of one, we suggest you ask yourself: “Would I put the health of my family in the hands of an unqualified doctor?” If the answer is no, why consider putting the health of your business in the hands of an unqualified tax adviser or accountant? Don’t be afraid to ask what qualifications and expertise they have - and if you have any doubts, try somebody else.

ACA or CA (Scotland) are the bodies who are the most difficult to get into, to pass and therefore are often regarded as the most sought after as advisors – the few graduates who are admitted to join firms for this qualification are essentially the higher achievers and if they put half as much into the relationship and advice for you and your business / investment as they did completing the degrees and A’levels you are sure to be on a winner. Not to confuse or complicate the difference in accountants will be at least give understanding why and how they act the way they do. Accountants are like investors, they are keen to inject time and hope it pays off in future business and who you know – they tend not work like lawyers in charging every penny so look after them and they will look after you!

## **So what is accountancy?**

Accountancy is about identifying and recording, analysing and explaining the financial implications of business transactions and decisions to enable businessmen to understand the performance of their businesses, and to help them make decisions and take actions which assist in achieving the objectives of the business. But don't worry, as we will explain over the next few pages, it's actually really rather simple!

## ***Types of accounts***

Just as there are several different types of accountants, there are also many different types of accounts. However, they can be grouped under two main headings:-

- Statutory accounts - also known as financial accounts;
- Management accounts.

## ***Statutory accounts***

These are compulsory for companies, and must be sent every year to the shareholders in your company and to Companies House. In addition:-

- They must follow a standard set of rules and conventions, and show what went on during the financial year;
- They are mainly used by people outside your business - e.g., bankers, customers, suppliers and, of course, the taxman.

## ***Management accounts***

These type of accounts are essential for well-run companies, but are not strictly required by law. As their name suggests, management accounts are mainly used by management. In fact it is very rare for them to be shown to anybody outside the company - and companies cannot usually be forced to show their management accounts to anyone other than the auditors.

There are no rules that say what management accounts must look like - it is up to each company to decide what format will best help it to understand what's going on, control the business and make better decisions.

Management accounts often predict the future as well as keep track of the past, i.e. they usually include forecasts of what is going to happen tomorrow, as well as recording what happened yesterday. In contrast, statutory accounts only ever record what has already happened in the past.

## **Your books**

Both sets of accounts (management & statutory) use the same basic information which they get from the same place - the Company's "books". We shall describe what type of books you will need to keep later in these notes. However, first we shall look at the accounts themselves.

### ***Introduction***

We said before that business finance and accountancy are a bit like driving a car. Good drivers use the dashboard to monitor their progress - and in just the same way good business managers use their accounts to monitor their business progress. So accounts are, in a sense, your business dashboard. The two key instruments on your car's dashboard are probably the speedometer and milometer. These are equivalent to the two key elements in any set of accounts: the profit and loss account and the balance sheet.

### ***Film***

Action film = Profit & Loss Account

In a film, you get to see the progress of a storey, a profit and loss account shows you the movement of the action. It will have good and bad parts, it's ups and downs.

This is equivalent to the profit and loss account, which shows how fast your business is accumulating profits.

Both the action film and the profit and loss account only make sense when viewed over a period of time, in a film a few hours to a life of someone:-

- The film shows a storey which can be put into words or performance;
- The profit and loss account shows the financial performance in a year, known as profits (or losses).

### ***Snap shot***

Snap shot = Balance sheet

The balance sheet, on the other hand, is like the snap shot. A film records the movement and performance, the camera records a shot in time of what is there. A record of where you are at in a film or life, is why people record a picture, a milestone. A milestone can be doctored as people look to improve one window of time, perhaps we breath in or use Photoshop to make us look younger, fitter and less tired! It records at one point what people think of a situation or person at one time interval.

In the same way, your balance sheet measures how far your business has got to and what it says right now. It is a snapshot of where the business has got to and gives some indication of how much it might be worth (but like the photo it tells us little or nothing about how, or how quickly, it has got to where it is).

## What are accounts?

### ***Double-entry***

You may have heard about, and been terrified at the thought of, double-entry bookkeeping. If so, relax. We don't recommend double-entry bookkeeping to any of our clients. But it is useful to have an idea of what it actually means. In fact, the dashboard on your car, and your accounts are both examples of double entry at work:-

- On a car, for every extra mph on the speedo, an extra mile is added to the milometer.
- In business every extra £ on the profit and loss account adds an extra £ to the balance sheet.

In both cases only one thing happens (either you travel a mile or you earn a pound). But in both cases there are two effects - the mile changes both the speedo and the milometer - while the pound changes the profit and loss account and the balance sheet. There are two effects (or "entries"), and so for hundreds of years accountants have referred to it as double-entry. That is really all there is to it.

### **Basic principles**

Most accounting is little more than applied common sense. However, there are two golden accounting rules that are not immediately obvious - and so it is worth spending two minutes describing them.

### ***The accruals principle***

Your accounts should reflect things when they arise or are earned - which is not necessarily the same as when you actually pay or are paid for them. For example, your accountant will include an April sales invoice in your April accounts, even if your customer doesn't pay you until August.

### ***Revenue v capital payments***

Some of the things you spend money on will not be regarded by your accountant (or the taxman) as reducing your profits. For example, the money you pay to buy a new car or pay off a loan. Accounting conventions say that payments like these shouldn't appear in the profit and loss account - instead their effect is confined to the balance sheet.

The key distinction here is between revenue and capital expenditure payments:-

- Revenue payments are the running costs of the business - the type of expenses that buy goods and services which are used up quickly (e.g., wages, advertising, rent, stationery, etc.). This type of expenditure is shown in the profit and loss account (and is often referred to as having been "expensed").

- Capital payments, on the other hand, relate to things that continue to benefit the Company for several years (e.g. computers, cars, etc). They also include paying off loans. This type of expenditure is shown in the balance sheet (and is often referred to as having been “capitalised”).

## ***Your accounts***

We have now explained the building blocks of every set of accounts. On the next two pages you will see stylised versions of what these building blocks are used to construct - your profit and loss account and balance sheet.

### ***Your profit and loss account***

Figures for .....	Description
Sales .....	Made by your business - even if not yet paid for.
Less.....	Less
Costs.....	Revenue expenditure - costs of goods and services used to generate, supply and support those sales - even if not yet paid for.
= .....	=
Profit .....	How much your business has really made.

### ***Your balance sheet***

Balance sheets are always presented in two halves. The top half shows the Company’s net assets, i.e.:-

Figures for .....	Description
Assets .....	What your Company OWNS.
Less.....	Less
Liabilities .....	What your Company OWES.
= .....	=
Net assets.....	Rough measure of how much your Company is “worth”.

The bottom half shows where these net assets have come from i.e.:-

Share Capital .....	How much money you and any other shareholders have invested in the Company.
Plus.....	Plus
Profits.....	How much profit you have earned but not spent since the business started.
= .....	=
Net assets.....	This will be the same figure as in the top half of your balance sheet - i.e. roughly how much your business is “worth”.

### ***Introduction to accounts***

Your accounts can only ever be as accurate as the books you keep. In this section we explain the books you will need - and those you won’t!

### *Cash Book*

This is your single most important “book”. It records all of the payments made into and out of your business’s bank account. It is crucial to set up the book appropriately at the commencement of business, and Cranleys will provide, free of charge, a spreadsheet-based computerised system. At the end of each month the totals for each column for that month will automatically be calculated.

### *Sales invoice file*

It is both very helpful to your business, and reassuring to the tax man, if you issue your sales invoices in strict numerical order. You should also set up a file with file dividers for each month and file your sales invoices in strict numerical order.

The only exception to this rule is that unpaid invoices should be kept in a special section at the front of the file until they have been settled, at which point you should mark the invoice “paid” and also write on it the date paid, and then file it in strict numerical order. You should also regularly review the unpaid section of the file and take steps to chase up payment as often as possible (see the notes further on for a detailed description of how to do this).

### *Purchase invoice*

This is a file with a file divider for each month and a front section file for unpaid bills. On receiving an invoice, file it in the unpaid section until such time as you pay it. On paying the invoice you should write “paid” and the date on the invoice itself, and then transfer it from the unpaid section of the file to the section for the month in which you made the payment. You should also, of course, ensure that the payment is recorded in your cashbook.

### *Expense claims*

Whenever you pay any expenses of the business by using your own money you are entitled to ask the company to pay you back. We recommend simply record these items in the cash column of your Cranleys Spreadsheet.

### *Bookkeeping basics*

This part of the guide is designed to give you information on IR35 and how it could affect you. As ever, if you have any queries please do not hesitate to contact us.

## **Summary**

- At the moment, even if all your income is deemed to be salary, you will still pay about the same amount of tax as a permanent employee on the same income.
- The new rules only apply to “deemed employments”. Any contract that is deemed “self-employed” will mean that income can be ... distributed as per pre IR35 rules, i.e. by dividends.

- Any income that is derived from “deemed employment” will have to be distributed in the form of a salary, after having deducted expenses. The salary and associated PAYE does not have to be paid until after the end of the tax year (by 19th April).
- Allowable expenses include: pension contributions, travelling expenses to “temporary workplaces” (see 3.4), company insurances, professional subscriptions and the 5% expense deduction (see 3.7);
- Due to the importance of correctly determining which contracts fall within IR35 we are pleased to be able to offer a contract review service.

## IR35

- Consider taking out an executive pension plan. These contributions are allowable for tax relief, and can also be paid out before the “deemed salary”, thereby saving both employees and employers national insurance.
- As far as possible take contracts that have many pointers to self employment, such as short length (3 - 6 months), a “fixed price” for the contract, the ability to sub-contract the work if you choose, etc.. Remember though, it is the substance of the relationship which matters, not just the wording of the contract.
- Take out professional liability and employers’ liability insurance. This is a useful, but not conclusive, pointer to self-employment.
- Ensure that you have a properly written contract which addresses all the issues likely to affect the determination of “employment” status. Running as a “proper” business is important, Indicators of which would be being VAT registered, taking out appropriate insurances, being actively engaged in seeking other work both, before, during and after your current contract. You might also consider attending seminars on marketing, business practice and management, perhaps taking out local advertising and developing other lines of business. All this builds up a picture of “self-employment”, which is vitally important.

## Important points

### 1.1 Introduction to IR35

The original proposals exposed during the early summer of 1999 were roundly condemned as unworkable by all respondents to the consultation. Finally, in late September 1999 the final form of the proposed legislation was publicised. The legislation came forward in Finance Bill 2000 for commencement in April 2000. The measures to implement the National Insurance Contribution aspects are included in the Welfare Reform and Pensions Bill which has now passed through Parliament. The PCG brought an unsuccessful Judicial Review against the measures in March 2001. As of May 2010, the Coalition government have announced a commitment to review the IR35, so there may be changes in the near future.

From the Judicial Review in 2001 came some useful guidelines which makes it quite easy to avoid IR35 with proper structure and advice.

### 1.2 Outline of the rules

The legislation is designed to increase the NIC revenue from the service industry, which on the whole has found it more tax efficient to distribute income as dividends, usually subject to the payment of a small salary. To this end, it introduces the concept of “deemed salary” which will be taxed and subject to NIC as if it has been paid as a salary.

In order to retain some logic to this treatment it is necessary to identify the situations in which these rules are to operate. The Government’s concern is that small limited companies are being used to disguise employment, so this is the test which has been applied:-

Where the employee is provided by his Company to an ultimate client on terms which would normally constitute an employment with that client, this is called a relevant engagement (section 2.1) and the IR35 rules apply.

## 1. SUMMARY OF IR35 LEGISLATION

### 2.1 Introduction

Where the Company provides the services of a member of staff to a client (either through an agency arrangement or otherwise) and the terms are such that, without the intermediary the individual would be an employee of that client, the new IR35 tax treatment is triggered. It is important to remember, therefore, that it is a test of employment as regards the eventual client that is considered. We are not then saying that the individual is an employee of the client, just that in these circumstances the “relevant engagement” rules will apply.

Income from such work arising from a relevant engagement will be taxed according to the new rules. Clearly, therefore, the planning considerations will depend on the correct classification of the engagement by the Company, so that the new treatment is adopted when appropriate.

### 2.2 Deemed employment or self-employment

As deemed employment will trigger the IR35 rules, it is vitally important to consider what the Revenue will treat as being employed. The entire IR35 site is available at [www.inlandrevenue.gov.uk/ir35/index.htm](http://www.inlandrevenue.gov.uk/ir35/index.htm)

It would be unwise indeed to pin all hopes on a contract effectively bought “off the shelf” describing a self employed engagement. The parties to the contract must behave in such a way as to make it clear that the contract does indeed summarise their working relationship.

Internal Inland Revenue guidance on contracts includes: “The terms of a contract can be written, oral or implied, or a combination of all three.” In establishing the terms of engagement the officers enquiring into status are instructed to obtain copies of any contract in existence, and then review the following for additional evidence:-

- Other documentation such as handbooks, procedures manuals and franchise agreements. These may give more information about the terms of the engagement and may also identify the conditions under which the worker is expected to operate;

## **2. RELEVANT ENGAGEMENTS**

- Evidence to support oral and implied terms, which might be at variance with the written contract. SE541 warns that the written contract may not have been implemented and that the true contract is made by oral or implied terms. These are identified from verbal agreements at the beginning of the contract, and also from working practices on a day-to-day basis. Guidance highlights “the prevailing practices or conventions of the particular trade or organisation.”

Thus, where the parties to a contract do not behave in the way described by the agreement, it is normal for the courts (if called upon to make a ruling) to regard the subsequent behaviour as a variation in the terms of the contract, and therefore view the case based upon the working relationship, rather than being bound by a contract which bears little resemblance to reality.

### **3.1 General**

In the calculation of the “deemed salary” certain expenses will be deducted from the income arising from relevant engagements. The most important of these is the deduction for travelling expenses. To be clear the following expenses have been mentioned by the Inland Revenue in various consultations and FAQ publications:-

- Travelling and other expenses deductible under Section 198 of the Income and Corporation Taxes Act 1988;
- Employer contributions to approved pension schemes which attract tax relief in the normal way;
- Gross salary paid plus any employer NIC on both the salary paid and any deemed payments;
- 5% of the gross income from relevant engagements to cover running costs;
- Any other expenses which do not fall within S198 TA, but have another statutory route for deduction, such as payment of professional indemnity insurance.

### **3.2 Travelling expenses: summary**

Employees are entitled to tax relief on the full cost of any travelling in the performance of their duties, or any travelling they have to do to attend a place at which they are to perform duties,

excluding the costs of ordinary commuting and private travel. The terms 'ordinary commuting' and 'private travel' are dealt with in detail by the guidance material. For the purposes of contract workers the following logic applies (see point 3.3).

### **3.3 Permanent Workplace**

Travel from home to your permanent workplace is not tax deductible (however see 3.4). This is part of the 'ordinary commuting' test. For many employees their permanent workplace is obvious, and any occasional journeys to other locations will clearly be an allowable expense, but in the contracting business, which involves travel to the site of the client, care is needed not to fall foul of the rules.

## **3. EXPENSES AVAILABLE FOR DEDUCTION**

The guidance indicates that a 'permanent workplace' is to be interpreted as follows:-

"A place where an employee works is a permanent workplace if he attends it regularly for the performance of the duties of the employment."

With this definition and the concept of 'regular attendance', most contract workers would be in difficulty, but they are excused by the exclusion of temporary workplaces.

### **3.4 Temporary workplace**

"A workplace...will not be a permanent workplace if it is a temporary workplace. A temporary workplace is somewhere the employee goes only to perform a task of limited duration or for a temporary purpose."

Clearly this will normally exclude your client's site, as you attend it for a fixed period only and then the contract ends. This means that you are performing a task of limited duration there and travel to the site will be allowable. However, mindful of possible abuses, the Revenue have introduced a limitation to the temporary workplace rule:

"A workplace cannot ever be...a temporary workplace if the employee attends it in the course of a period of continuous work which lasts, or is likely to last, more than 24 months."

A 'period of continuous work' is a period of work, throughout which the duties of the employment are performed to a significant extent at that place. For this purpose, 'significant extent' will be interpreted as 40% or more of the employee's working time spent at that place.

This limits your deductions in respect of travelling expenses when you renew a contract repeatedly. Once you have been travelling to the same client's premises for nearly two years, and the next contract renewal will take you over the two year point, you will no longer be permitted to claim with effect from the renewal date. Note that it is at the point that the contract is expected to exceed 24 months that the deduction is lost, not at the point at which the 24 months is exceeded.

Where you decide not to renew immediately at the end of, say, 22 months work, be aware that the 24 month period continues to run (that is any period of 24 months). If you return to the same client site within about 15 months you should not claim for your travelling expenses (60% of 24

months is 14.4 months: this is the length of the gap needed to overcome the 40% in 24 months principle).

### **3.5 Pension contributions**

Under the new rules, pension contributions will form an extremely important part of remuneration planning. Not only are the contributions allowable for tax purposes, they can also be paid before paying the new 'deemed salary', meaning that both employees' and employers' national insurance is also saved.

### **3.6 Other statutorily allowable expenses include:**

- Professional subscriptions;
- Premiums for liability and indemnity insurance.

### **3.7 The 5% deduction**

This allowance, being 5% of the total income from relevant engagements, is intended to cover all of the expenses of running the Company, including accountancy fees and the Companies House filing fee. In the deemed salary calculation there is no need for the intermediary to show how and where the expenditure has been laid out, or even whether it has or not. It is sufficient to deduct the 5% in the calculation. Where the company bears in reality more or less than the amounts allowed, this may give rise to a profit or loss for corporation tax purposes, so there is still a purpose in recording the actual expenditure incurred by the company.

## **4. ENFORCEMENT OF TAX LIABILITIES**

Should the Company default on the payment of PAYE and NIC, and claim that limited liability will exclude payment, Directors should be aware that there are existing procedures (used increasingly successfully in the recent past) to enforce PAYE liabilities on the employee who received the emoluments and in the case of NIC, any Director of a Company which fails to pay NIC due where the Director is fraudulently or negligently concerned with non payment. It is also possible to obtain freezing orders over a Director's personal assets to secure payment of NIC liabilities. This is not to be contemplated!

## **5. PRACTICAL CONSIDERATIONS**

If your contract does fall within the IR35 provisions, and therefore the income has to be distributed as salary, this creates an administration difficulty in terms of timing of payments. The Revenue have therefore said that the PAYE can be paid annually but, no later than 19th April. In practice we will calculate how much deemed salary and PAYE you have to pay at 31st March each year.

## **IR35 Advice**

**Plain English IR35 Advice.**

Advice you'll be able to understand, which will make a change from most of the technical 'mumbo jumbo' you will read on the internet.

### **What is IR35?**

IR35 was brought about by the government to ensure small companies especially contractors and freelancers, operate their own limited companies in a right and proper manner with the same level of risk, responsibility, liability and control that other directors of limited companies accept, when they manage their own businesses. You will most definitely be caught by IR35 and found to be inside if you have the same level of risk, responsibility, liability and control as a permanent member of staff.

### **What does IR35 mean for you?**

If your contract and working practices give the impression that you are inside or caught by IR35 legislation you will have to pay full tax and full National Insurance (instead of the usual salary and dividends from the profits of your company) and reduced expenses i.e. you'll earn less money. This is because HM Revenue and Customs believes that as you aren't taking the financial risks or have the same level of control as a director of your own limited company, you aren't entitled to the same corporate tax structure.

### **If you are inside/caught by IR35 is there any benefit in trading through my own limited company?**

If your contract and working practices look like you are inside IR35 you can still claim: travelling and accommodation expenses, 5% of your turnover, benefit from the VAT flat rate scheme (saving around £2,000 a year), and receive interest on the funds held within your own company. So yes, from a financial point of view it still could be worth it. Also, any other contract work you do could also be put through your existing company.

### **What kind of working practices and contractual conditions are HMRC looking for to see if you're inside or outside IR35?**

Below are a few hints, tips and pointers. Please be aware this is not a comprehensive list, IR35 regulations are extremely complex but the brief notes below should provide a rough indicator:

#### **Control:**

Are you free to work under your own control i.e. not managed by the client?

#### **Financial risk:**

Although profit share is common place in the employed world, it is without exception in owner managed companies. Also, employees rarely risk financial loss by being employed, whereas if you buy assets such as PC's, laptops, servers, printers, office equipment or a client fails to pay you as director of your company you will most definitely experience financial loss.

#### **Substitution:**

In your contract do you have a clause about using somebody other than you to perform the task you're company has been contracted to do?

#### **Provision of equipment:**

Will you be using your own equipment? Sometimes this is very difficult and allowances are made where security measures prohibit the use of say using your own laptop.

**Right of dismissal:**

Do you have a fixed notice period. The Revenue will argue that this is like an employee, therefore there should be provision in your contract for immediate termination should the client choose to do so.

**Employee benefits:**

Plainly speaking you can forget about receiving any holiday pay, sick pay, pension contributions, training courses, Christmas dinners or the annual staff summer outing.

**Please remember**

HMRC don't just look at the above - they review EVERYTHING in an effort to establish if you are really an employee or a director running, managing and controlling your own limited company. It doesn't matter if you are working for the same client for one month or twenty years. It's what you're doing and your level of risk, responsibility, liability and control.

## ADVICE ON FORMING A LIMITED COMPANY

**Forming a limited company** online only takes 5 minutes and your company should be set up within two hours. All you need is a company name (availability can be checked on our website at no charge) and a credit card to complete the transaction. The formation costs **£97 +VAT**, included in this price is the following:

- **Registering the Company for VAT & PAYE**
- **Advising on the optimum share structure of the Company**
- **Setting up statutory records**

Once you have formed a limited company, you will receive all the necessary limited company documentation, along with an application for free business banking and VAT registration details.

During the on-line formation process you will be prompted for several pieces of information:

Director details	This is you
Secretary details	Following a change in legislation, as of 6 April 2008 there is no requirement for a company secretary.
Subscriber/Shareholder	You will need to allocate shares in the company. Dividends are distributed to the shareholder/s of the company, which is how you will take most of your income.

### ***Appointing your Accountants***

Unfortunately there is nothing to stop anyone calling themselves an Accountant. There are however a number of qualifications you should look for before considering appointing someone. Look for the letters ATII, ATT, ACA, FCA, ACMA, FCMA, ACCA, CA or FCCA and you won't go too far wrong.

### ***Use of registered office***

You will need to register your company to a registered office address; most people simply use their home address. There is an advantage however of our Basingstoke office as your registered office. We will receive all correspondence direct from Revenue and Customs and Companies House on your behalf. There is no fee for this.

### ***Finding the right contract or freelance role***

There are thousands of contractor and freelancer roles available, so it is important you spend sufficient time planning in advance and looking at what is out there. For a consolidated view of the market from recruitment agencies and corporates you can search online using job boards. Many jobs boards often have a free alerts facility, whereby you are automatically sent an email or RSS feed when a new job is advertised that matches your specified criteria. For example 'Java Developer, London'. You can also set up multiple alerts with different criteria.

## ***Advice on Expenses***

### **What expenses can I claim as a contractor working through my own limited company?**

If you're a contractor working through your own limited company and are outside IR35 then life is very simple. HM Revenue and Customs rules state that expenses can be claimed provided they are wholly and exclusively for the purposes of your business.

This means you can claim things like: Company formation fees, Accountancy fees, Business travel and Accommodation, Postage, Stationery, Telephone calls, Employer's N.I. contributions, Salaries, Subscriptions, Insurance, Contributions to an executive pension plan, Business entertainment etc.

### **Allowable Expenses.**

This is not a comprehensive list of expenditure however it includes the most common expenses that can be reclaimed.

- Company formation expenses
- Accountancy fees
- Business travelling expenses (obeying the two year rule)
- Postage for business purposes
- Stationery for business purposes
- Telephone calls for business purposes
- Mobile telephone and calls
- Salaries paid by the Company to the Contractor and Contractor's spouse for work done
- Employers NI Contributions
- Contributions to an Executive pension plan
- Business entertainment
- Equipment purchased for business purposes
- Either a mileage allowance or the costs of running a car (if car owned by Company, a benefit in kind charge arises on the Contractor)
- Computer software
- Technical books and journals
- Subscriptions (in most cases)
- Use of home office
- Company bank charges and interest
- Christmas Party allowance - limited to a maximum of £150 per employee

### ***Do I need to keep my receipts?***

Although your accountant does not need to see your receipts, we would advise that you hold onto any that you make claims for as an expense. We would advise that you keep your receipts for a minimum of six years as the Revenue, if they do decide to investigate they can go back as far as six years.

## ***What is and what isn't a valid Business Expense?***

### **Meal Allowance**

You can claim actual meal costs whilst you are working at a remote site, away from your normal place of work, or when staying away from home overnight, but daily, round sum claims for meals are not permitted.

### **Travel**

You can claim the cost of travel to and from your temporary place of work. Mileage rates are 40p per mile for the first 10,000 miles in any fiscal year and then 25p per mile thereafter. This allowance is to cover fuel and running costs of the vehicle. If you are travelling to work as a passenger in a car you are entitled to claim 5p per mile.

You can also claim for parking and the congestion charges but you may not claim for parking fines or speeding fines. The cost of travel by public transport can be claimed but you must have a valid receipt. A mileage allowance can also be claimed for travel by motorcycle and bicycle at rates of 24p per mile and 20p per mile respectively.

### **Accommodation**

The cost of hotel or bed and breakfast accommodation can be claimed as an expense, as can the reasonable cost of additional meals taken in conjunction with overnight accommodation. There are no set allowances for accommodation but the cost must be deemed to be 'reasonable'; this also applies to the cost of meals.

### **Clothing**

You cannot claim for ordinary clothing which would form part of an 'every day' wardrobe even if you would not be likely to wear your working clothes anywhere other than at work.

### **Training**

Providing the training course is wholly and totally relevant to the performance of your duties under your existing contract.

## **What if I'm inside IR35, what expenses can I claim?**

If your contract is caught by IR35 then the only expenses claimable are: administration expenses which are fixed at 5% of your contract income, travel and accommodation expenses, pension contributions and certain professional subscriptions. You should, however, still record and receipt all business expenses.

### **What do the Revenue say?**

In relation to expenses, if you are outside IR35, the revenue quote that you can claim back anything that is "wholly and exclusively necessary" to carry out the day to day running of your business.

HM Revenue and Customs have produced a comprehensive 100 page downloadable pdf called: 'Expenses and Benefits: A tax guide" available at [www.hmrc.gov.uk/guidance/480.pdf](http://www.hmrc.gov.uk/guidance/480.pdf).

### **Allowances for costs?**

Remember you cannot claim for something you didn't actually pay for in the first place, or can't provide evidence that you did.

You will be personally liable for any underpaid taxes NOT the company you're working through or taking advice from.

You should therefore steer clear of companies and scheme providers promoting generous expense allowances with 'NO' receipts required.