

Steps to starting your business

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Starting your Business Step by Step

Step One

Whether you're thinking seriously about starting your own business or you're already up and running, it's worth taking a bit of time to make sure you've done everything you need to do.

The aim of this programme is to help you start out on the right track, so you can avoid some of the common pitfalls and concentrate on building a thriving business.

This programme covers all the main areas you'll need to know about, and tells you where to go for further information. I will give you a list of useful contacts throughout the programme.

Were you unemployed before you started up in business?

If you are registered with a jobcentre, you'll need to let them know when you start working for yourself.

Are you employed or self-employed?

Your employment status (i.e. whether you are employed or self-employed) depends upon a number of things, including your terms and conditions and the way you organise your work.

If you're working for yourself, you're probably self-employed. If you do more than one job, it's worth remembering that you can be employed in a job and self-employed in another. Special rules may apply if your work is arranged through an agency, or using a limited company or partnership to provide services to clients.

In the above situations you may have to pay tax and National Insurance contributions as if you are an employee. For further advice, visit the HMRC website at [HMRC website](#)

If you are self-employed, have you registered with the Inland Revenue?

Have you thought about tax and National Insurance contributions? Have you thought about the structure of your business/plan? Have you got a business plan? Will you have to pay business rates? Should you register for Vat? Will you be liable for any other forms of tax?

If you're self-employed, have you registered with the Inland Revenue?

You may be on this programme to find out how to register with the Inland Revenue, if so you will need to read through information which is contained in the leaflet P/SE1 (Thinking of Working For Yourself). If you sign up via the website (www.hmrc.gov.uk/startingup), you will be registered with the Inland Revenue for National Insurance purposes, and they will send you a Self Assessment tax return at the end of the tax year in April.

If you have not registered within three months, starting from the last day of the month in which you began self-employment, you could be liable for a penalty of £100.

You can register by calling the Helpline for the Newly Self-Employed on 0300 200 3504, or you can fill in the form SE1 online. If you are registering by phone, have your National Insurance number ready. You might find it helpful to keep a note of your registration details, such as the date your business started and the date you registered, for your own records.

Have you thought about Income Tax and NI contributions?

When you are self-employed, you're responsible for paying your own tax and National Insurance contributions. Keeping full and accurate records from the start will make it easier to work these out.

Broadly speaking, after your first year in business, the tax you have to pay will be based on your profits for the previous tax year.

A tax year runs from 6th April to 5th April, but you must start paying Class 2 National Insurance contributions as soon as you become self-employed. These are payable in addition to any Class 4 National Insurance contributions which may be charged on your profits.

Have you got a Business Plan?

Having a well thought out business plan will make life much easier in the long run. Careful planning means you're less likely to forget things, gives you targets to aim for and helps you measure your success. And if you decide you need to borrow some money, a good business plan will be vital.

Step Two

Record Keeping

HMRC state that they want to make sure that you pay only what you owe, which means the right amount of tax and National Insurance contributions at the right time. If you don't keep proper records, you may not be able to prove your income and expenses, and that could mean paying more tax than you need to. They will send you regular updates of what you've paid and what you need to pay, based on the information you give them. By keeping proper records, you'll be able to check that everything's in order.

Helping you to help yourself

Keeping records also makes sound business sense. It may seem like a challenge, particularly when you're starting out, but keeping good records will bring real advantages to your business. Get a proper system in place from the outset, and update the information regularly.

By law you must keep records of all your business income and expenditure. You need to keep these records for at least five years after the latest date for sending back your tax return. This is in case the Inland Revenue want more information or want to see the actual records. Keeping good records will also help you fill in your tax return.

It makes sense to do it properly and make it as easy for yourself as possible. You might want to get advice from your Chamber of Commerce or an accountant on what systems suit your business, and on how to keep your records up-to-date.

Having an accountant can save you time and money. They can help you by filling in your forms for you and giving up-to-date advice on what suits your business best. It is a good idea to speak to two or three before you appoint someone, to ensure you are getting the best service for your business.

There are three steps to remember...

1. Set up a system

It doesn't matter whether you use a special account book or a software package as long as you set up some kind of system to keep the information together. Make sure the system you choose is geared to your business, and simple to use. You will be given more information on what kind of records you need to keep later on in the programme.

2. Keep records throughout the year

Keeping only some of your records is almost as bad as keeping none at all. Update your records regularly, rather than letting the paperwork pile up.

3. Keep your records for as long as required

You must keep all records for at least five years from the latest date for sending back your tax return. You may need to look back at them yourself, and we may need to see them if there is any question over your tax.

Keeping good accounts

Accounting is a way of measuring and recording financial activities for your business. There are two reasons for keeping accounts...

- You are obliged to by law and, depending on your legal structure, to account for the way you spend money.
- You will find it useful, because keeping records and accounts will give you the daily information as to whether or not you have been paid by your customer and have paid your bills on time.

For these reasons, you (and the law) will also want to know if you are either under-spending, which leads to making profit, or over-spending, which can lead to going broke!

Problems in keeping accounts

Many people who go into business lack the confidence to deal with the finances, even though basic accounting skills are practiced everyday. For example, making a decision about shopping, whether to take a taxi instead of a bus or arranging holidays. If you can do those things well, then you are capable of handling your business finances.

The belief that managing the money is difficult often means that it is left to the 'expert'. If this is just one person in the business, information will need to be shared. How will you do this?

How and what records to keep

Depending on the size, type and legal structure of the business being operated, there are various systems that can be adopted. The proposed system operates on the 'KISS' basis, ('Keep It Simple, Stupid'). Whatever system you decide on, do check with your accountant that s/he is in agreement.

The following areas will be covered in more detail later on in the programme...

- Wages and Salaries
 - If you employ others, or if you are employed elsewhere.
- Sales record
 - A copy of every invoice issued or sale made should be retained and recorded.
- Purchase record
 - An invoice or receipt for every purchase made must be retained and recorded.
- Cash book
 - In this context, 'cash' means all money in and out, however transactions are made. It is a simple summary of transactions of money received and money spent, as above.
- Petty cash
 - Records of every transaction, for whatever the expense, should be accompanied by a docket and recorded.
- VAT record
 - If you are registered, it is a legal requirement that you keep a VAT account.
- Bank Statements
 - All bank statements should be kept, as without them the books cannot be reconciled.

Hints and tips for better bookkeeping

Here are a few suggestions for keeping records and handling the money with confidence...

- Keep all financial information filed in order - you will find this helpful, and so will your accountant/auditor
- Keep incoming money separate from outgoing money unless you are in a retail business
- Bank all incoming money as soon as practicable
- Always give and retain receipts
- Keep an inventory of all equipment purchased
- Keep minutes of meetings, especially details of financial decisions

Who does the books?

Before deciding who in your group will be the financial record keeper, here are a few pointers...

- Bookkeeping is vital and should not be treated as a chore – it should not be left to be done in a spare moment when the business is quiet
- It is a work task and should be undertaken in normal work hours
- More than one person should know and understand the system in case of illness etc.
- If rotating the job, then only at a six monthly interval - try to stick to one accounting year
- Give support to the person whose job it is - it can be lonely and stressful
- Meetings should include a 'financial report' as a regular agenda item

Although it may be the job of one or two people in your group to keep the financial records, it is up to all to appreciate the financial situation of the business, in order that everyone can contribute equally and make informed decisions.

You can keep all your financial records on a spreadsheet called 'Budget Income & Expenditure'. We will go through this in more detail later on in the programme.

Start up costs

This might be a good time for you to make a list of all the items you may need to purchase to enable you to make a start.