Your Ultimate Guide To Starting A Business

Fed up of building someone else's empire? Get started building your own.

Everything you need to know from **turning your idea into a legitimate business** to managing the daily finances.

Contents

SECTION 1:

Introduction

People set up their own business for many reasons. You want your work life to facilitate more time with the kids. Maybe the kids are going back to school now, and you want to go back to a work-life you can feel passionate about. You might be looking to set up something alongside your current employment for an additional income. Or maybe you've just decided to bite the bullet and do it for yourself rather than work for someone else!

Over the last few years, there has been a rise in people turning to self-employment to give them what mainstream employment can't. You may have already decided on a business name, possibly designed a logo, or even bought your domain, planned a website and ordered business cards; this can all be very exciting.

But, self-employment can also be scary. You have to deal with the dreaded tax man, keep on top of your finances, and complete a tax return as part of your responsibilities as a new business owner. There are many aspects of running a business that you may not be familiar with, that quite frankly have nothing to do with actually making money - but you still need to do them. What do you need to do to be official and legal?

A business takes time to build, and often you need to invest a lot of money. It could be quite a while (sometimes years) before you start to see a return. Even if you're making a loss you still need to register and complete your returns. That loss can be carried back to reclaim tax, or carried forward to offset against future profit.

In this e-Book I will be taking you through the basics of what is required, so you can run a business that makes you happy, and keep the tax man happy!

DISCLAIMER: The advice within this e-Book is generalised. Please seek an accountant for specific advice relating to you and your business.

Which structure should you use for your business?

Sole Trader or Limited Company?

When you are self-employed you are classed as a Sole Trader. This is the simplest structure for your business. A Limited Company is a more formal business structure.

It's not just the tax implications that should be considered, there are other factors that should assist in your decision as to which structure to choose for your business. Here are the main differences between the two:

SOLE TRADER	LIMITED COMPANY
✖ No distinction – you are your business	✔ The company is a separate legal entity debts
✖ All the debts relating to your business are your debts	✔ The debts of the company belong to the company
✖ If the assets of the business do not cover the debts your personal assets could be used to pay the debts – including your house	✔ Personal assets are not used, except in cases where a personal guarantee has been given
✔ No need for a separate bank account (but is recommended for good practice – can be a personal account)	✔ Your personal loss is limited to the amount you invest
✖ You rely on your own personal credit rating to borrow money	✖ You need a separate business bank account
✔ Less paperwork = lower accountancy fees	✔ Company can establish its own credit rating against which to borrow money
✖ Generally assumed to be a 'one-man band'/ less credible	✖ More paperwork = higher accountancy fees
✔ More flexibility	✔ Seen as more credible
✔ Losses can be set off against employment income to reduce tax paid	✔ Losses can only be offset against previous/ future profits of the company
✔ When working from home can claim more household expenses	✖ Less expenses can be claimed when working from home

Partnership or Limited Liability Partnership (LLP)? and IR35 & CIS

PARTNERSHIP OR LIMITED LIABILITY PARTNERSHIP (LLP)?

If there are two, or more, of you going into business together it is worth considering whether to structure your business as a traditional partnership, a limited liability partnership (LLP) or as a limited company with you all being directors.

A traditional **partnership is an extension of being a sole trader**. The partners are taxed in the same way as a sole trader, but just for their share of the profits, and a return is also required for the partnership as a whole. As with sole traders, the partners are legally liable to pay the debts of the business, and each partner is 'jointly and severally' liable for the partnership debts.

An LLP is legally similar to the Limited Company, in all aspects apart from tax where it is treated like a traditional partnership.

Alternatively, you could set up a Limited Company with each person as a director.

With any of these structures, you will need to agree the share of the profits beforehand. It is also recommended to get an official partnership agreement through a solicitor – even if (especially if) you are going into business with friends or family.

IR35 & CIS

IR35 was introduced to stop people setting up and working through a limited company to avoid paying tax instead of working as a normal employee – you may have seen the term 'disguised employee' in this context. If the person carrying out the work is working on the same terms as an employee, then IR35 may be an issue. This is particularly significant in the Construction Industry, and for Limited Companies working solely for one customer. If this applies to you then you will need to speak to an accountant and a solicitor with IR35 knowledge to ensure you have a water tight IR35 contract in place before setting up a limited company.

CIS

In a construction company the CIS (Construction Industry Scheme) may be applicable to you. You may be a:

- **contractor** – where you use people (sub-contractors) to do work for you
- **sub-contractor** – where you do work for other people (contractors)
- **both** – where you do both; work for contractors and have sub-contractors working for you.

We will look at CIS in more detail later on.

It is worth talking through your options with an accountant before making your final decision. Most accountants will offer a free consultation for new businesses, so make the most of it and ask about anything you are unsure of.

SECTION 2:

Sole Trader & Partnership

Here at Pink Pig Financials, we don't take on Sole Traders as clients. We're thrilled that you're interested in working with us, but we're not the right match for you. You can find out why here.

But we've done extensive work with Sole Traders in the past, so here's some helpful information based on our experience.

You've decided to become a Sole Trader, what do you do next? First of all, you will need to register with HMRC. The tax year runs from the 6th April one year to the 5th April the following year. You will need to register by the 5th October following the tax year you start your business – for example if you start your business on the 1st July 2020 this is during the 20/21 tax year (6th April 2020 – 5th April 2021), and you therefore need to register by the 5th October 2021.

You will need to **complete a tax retur**n for each year you are in business. For ease, the simplest way is to set your business financial year to more or less coincide with the tax year – 1st April – 31st March (plus this then covers full months and if you are using any bookkeeping software you will see they only work on a full month basis). Therefore, your first return would cover from the date you start to the following 31st March – for example if you start on the 1st July 2020 then your first tax return will cover 1st July 2020 to 31st March 2021.

Tax returns need to be filed by the 31st October following the end of the tax year if you wish to file a paper return, or by the 31st January following the end of the tax year if filing using the HMRC gateway or other digital filing method (i.e. through an accountant). Therefore, if you start on the 1st July 2020, your return for the 20/21 tax year will need to be filed by the 31st October 2021 (paper copy) or 31st January 2022 (digital).

If you are **also employed**, you will also need to include your employment income and you will need your P60 (and P11D for any benefits) from your employer to complete your tax return. These should be given to you by:

- **P60** – by the 31st May following the end of the tax year
- **P11D** – by the 6th June following the end of the tax year.

Any tax due will need to be paid by the 31st January following the end of the tax year (2022 in our example).

Tax may seem quite complicated, but for most sole traders without any other income it is actually quite simple. Tax is based on your profits from your business each year. This is not necessarily the money you have actually paid yourself from the business.

Each year you will have a **Personal Tax Allowance**. Most people have the same code, which is standard and increases each year. This is the amount of income you are able to earn before you need to pay tax. If you don't have the standard tax code HMRC will send you a coding notice to advise what your tax code is and how it has been calculated.

If you earn over the personal tax allowance you will pay tax, the rate depends on how much you earn. Current rates can be found here.

National Insurance is calculated separately from tax. When you are self-employed you will also need to pay Class 2 and Class 4 National Insurance.

Class 2 National Insurance needs to be paid on profits over the Small Profits Threshold. It is calculated using a weekly amount.

Class 4 National Insurance is based on a percentage of your profits over the Lower and Upper Limits.

Both are calculated as part of your tax return. There are currently talks to merge the two, so this could change in the future. HMRC will announce the changes in plenty of time before they actually happen, and your accountant if you have one, will also keep you updated on changes.

Here is an example of a basic calculation, using 2020/21 rates and allowances:

Self-employment profit :	£46,000
Less Personal Allowance of leaves taxable profit of	£11,000 £35,000
£31,786 (Basic Rate Band) @ 20%	£6,357.20
£3,214 (remaining amount at Higher Rate Band) @ 40%	£1,285.60
Tax Due :	£7,642.80
Class 2 National Insurance (52 weeks x £2.80)	£ 145.60
Class 4 National Insurance (£46,000 – £8,060 = £37,940 x 9%)	£3,414.60
Amount Due to HMRC	£11,203.00

If the tax you owe is over £1,000 HMRC will ask for a Payment on Account for the following tax year too. There are two payments on account, each totaling half of the tax due for the previous year.

Therefore, when you complete your return you'll be asked to pay the tax owed for the year on the return, plus the first payment on account for the following year (also due by the 31st January). You will then need to pay the remaining payment on account by the 31st July.

If when you do your next tax return, there is any extra owed this will be due by the following 31st January along with your tax return - this is called the balancing payment.

TOP TIP:

Put some money aside each month to save for your tax bill – depending on your profit levels around 15-23% of your income should be sufficient (please check with an accountant for profits over £40,000 per year).

Using the previous example for the 20/21 tax year where there was £11,203 owed to HMRC for the year the following payments would be required:

By 31st January 2021 Tax & NI due for the year	£11,203.00
1st Payment on Account for 20/21 tax year	£5,601.50
Total Amount Due	£16,804.50
2nd Payment on Account for 20/21 tax year due by 31st July 2021 :	£5,601.50

Any **additional amount for 20/21** will be due by the **31st January 2021**, along with the 1st payment on account for the 20/21 tax year.

If when you do your next tax return, there is less tax to be paid you can either reduce your 2nd payment on account if the return is filed by the 31st July, or you can request a refund, or put toward the next year's tax due.

If you have until the 31st January to complete and file your return, why should you do it early? Simply because there are benefits to getting it done early:

- it's out of the way, meaning less stress
- everything is still fresh in your mind
- if you're due a rebate you will get it earlier
- you could reduce your second payment on account
- you don't need to make the payment until the 31st January so it gives you plenty of time to save if needed or budget accordingly
- plenty of time to sort out any logging on/UTR/ password queries

You don't have to have separate bank account, but it is best practice. It doesn't have to be a business account, you can use a personal current account (although check your banks terms and conditions as some banks don't like it!).

There are two ways of preparing your business accounts – cash or accruals accounting. When preparing your tax return HMRC will ask which method you are using. The main differences are as follows:

Cash Accounting
Based on the money physically received and paid
No need to raise invoices, but must be able to prove your sales i.e. with a receipt book
Accrual Accounting
Focusses on when services/sales and purchases took place rather than when paid
Invoices are required to show when the work took place
Most common type of accounting

If you are part of a partnership, then you will need to register the partnership as well as each partner separately. There will need to be a return for the partnership as a whole, then each partner will file their own return declaring their share of the profits, plus any other personal income.

When you are a sole trader, any money that you pay yourself from the business will be classed as drawings. These drawings, along with National Insurance payments, are not tax deductible and should be excluded from any accounts you prepare.

I am often asked 'How much can I pay myself?" and here is a great guide from Xero to help with the answer www.xero.com/small-business-guides/business-management/pay-yourself. This guide is more geared to limited companies, so some of the advice may not apply, but it is a good guide and the general principles are the same.

TOP TIP:

Get your return done as early as you can – trust me it's a great idea!

SECTION 3:

Limited Company & LLP

YOU'VE DECIDED TO SET UP AS A LIMITED COMPANY – NOW WHAT?

First of all, **check your potential company name** on the Companies House website https://beta.companieshouse.gov.uk. You are not able to use an existing company name, so you'll need to make sure it is a unique name.

What if your chosen name is existing but **dissolved**? This is a risky choice as unpaid creditors from a previous company could think the company has re-opened and will expect you to pay their unpaid bills. It is advisable to choose something unique that hasn't been used previously.

Once you've decided on a company name you will need to **register your company** with Companies House and HMRC. This is also known as **Incorporation**. You can use an accountant to register your company (who will probably charge a small fee) or you can do it yourself via the Companies House website www.gov.uk/register-a-company-online.

Companies House charge a small fee when incorporating your company. Once registered with Companies House there will also be a link to register with HMRC for Corporation Tax.

When you register your company you will need to have a registered address. If using an accountant, this is usually your accountant's address (many sole directors working from home often prefer this option), but it can be your main business address.

When you set up a limited company you will be a **shareholder** of your company (you will own the shares of the company, either on your own or jointly with others). You will also be appointed as a **Director**. If it is just you, you will be known as a **Sole Director.** As a director it is your responsibility to ensure everything is done on time and correctly.

WHAT NEEDS TO BE DONE AND WHEN?

- Your **accounts** are due 9 months after year end and need to be filed with Companies House.
- You will need to pay Corporation Tax to HMRC on the profits of the company. **The Corporation Tax Return (CT600)** along with your accounts and a tax computation, is due 12 months after year end, but paid 9 months and 1 day after year end (yes you did read that right – you need to pay before the return is filed! In practice, the return is

usually filed within 9 months along with your accounts being filed to Companies House).

- A **Confirmation Statement (CS01)** is filed each year, usually on anniversary of incorporation due within 28 days of return date, you can check this on Companies House website. This confirms the shareholdings, registered address, and other important company information. This does not include any financial information.

Corporation Tax is based on a 12-month period. The first 'year' is normally just over 12 months, as it starts on the date of incorporation and therefore will be split into 2 returns - the first 12 months then a small remaining period to the end of your financial year. From year 2 onwards each return will only cover the year, unless you change your financial year (always consult an accountant before changing your financial year).

When you set up a limited company you will usually be employed by your company. Therefore, **paying yourself** out of your limited company can be a mixture of salary and dividends. You may have heard the phrase 'low salary high dividends'. This basically means paying yourself a low salary and the rest of your income will come in the form of dividends.

If you are a sole director with no staff then your salary will be set at the National Insurance limit, so you do not pay any tax or national insurance from your salary. If you have staff or there are 2 or more directors, then your salary will be your personal allowance for the year. This is due to the **Employment Allowance**. The government currently give each company a discount each year off of the Employers National Insurance contributions. This is only available for employers where there are 2 or more employees paid over a certain amount. Basically this means you will need to pay a small amount in Employees National Insurance out of your salary, but this is offset by the Corporation and Personal Tax saved. **Dividends** are payable out of the profits after corporation tax. Dividends are treated as income rather than earnings, so there is no National Insurance to pay on dividends. There is a personal tax free allowance for dividends each year, and any dividends paid overthis allowance are personally taxed at the dividend rates.

You may have heard of the term '**Directors Loan Account**' or '**Directors Current Account**'. These are used to keep a record of money invested by or paid to the director. At the end of the year the balance of this account is what is owed to or owed by the director. If there are enough profits in the company dividends can be used to clear any balances owed by the director. If there isn't enough profit, then the amount will need to be repaid by the director within 9 months to avoid any tax penalties. Any money owed to the director can be repaid to the director (when there is enough cash in the company available) without any tax implications.

I am often asked 'How much can I pay myself?" and here is a great guide from Xero to help with the answer www.xero.com/small-business-guides/business-management/pay-yourself

An accountant can advise further on the most tax efficient method of paying yourself from your company, and this advice will then be tailored to your specific circumstances.

Directors will need to complete and file a selfassessment each year and pay any tax liability by the 31st January following the end of the tax year. Limited companies are required to include your company name on all business communications (paper and electronic). It is also compulsory to have your registration details on letters, order forms and websites – this includes your registration number, which part of the UK in which your company is registered and your registered address.

SECTION 4:

Running Your Business

So we've covered the structure and how to set up your business, but what do you need to do on a daily/weekly/monthly basis?

BOOKKEEPING

You will need to keep records of all of your business transactions – incomings and outgoings – this is known as bookkeeping (did you know that the word 'bookkeeping' is the only word in the English dictionary that contains 3 consecutive double letters?!).

Your bookkeeping can be done manually, in an actual book, or electronically using a spreadsheet or software package. Over the last few years, software packages - especially those in the cloud, have become a lot more popular with business owners and it's not difficult to see why! Read more about cloud accounting here. Many packages will offer free trials, so try a few out and see which package suits you and your business.

However, you choose to do your bookkeeping receipts will need to be kept for a minimum of 6 years. These can be kept in paper format or can be scanned in and saved electronically – just ensure you are able to print them off in case of an inspection. You will also need to ensure your records are kept in an orderly fashion – please do not just throw your receipts in an old shoe box!

What do you need to include on **your invoice**?

- your full company name (and registration number if a limited company)
- your trading (and registered if a limited company) address
- invoice date
- invoice number
- total price
- if VAT registered your VAT registration number and a breakdown of price – net price (before VAT), the VAT, and the total price.

Try to pay for all **purchases** using your business account. It will keep things simpler as everything will be recorded on your bank statement and it will be easier to tie up later down the line when preparing your accounts and tax returns. If you do pay using cash or a personal account make sure you keep a record of the purchase, even if it is just a note on a piece of paper.

If you are using your personal car for business travel then you are able to claim **mileage** as an expense, which covers the cost of your petrol, maintenance, wear and tear etc. on your car. You will need to keep a log of your mileage – remember to include both journeys to your destination – there and back. Your accountant can provide a spreadsheet for you to use – or send me an email cheryl@pinkpigfinancials.co.uk and I can forward one to you.

You can purchase or lease a car through your business, but this will have tax implications depending on your business structure. Here are the differences in a nutshell (please note this is extremely simplified – please speak to an accountant for a full explanation).

If you are a sole trader then it is quite simple – you can claim the business percentage of the full running costs of your car, plus an annual allowance for the purchase price of the car (see Capital Allowances below), and the car will be classed as an asset in your accounts.

If you are limited company it can get quite messy. If you use the car for personal use as well you will be liable for company car tax personally, therefore it is generally advisable not to put the car through your business.

If the car is used solely for business purposes, then it could be quite beneficial to put the car through the business. How the car is put through your accounts will depend on if it is purchased (either outright or via a lease purchase/hire purchase contract) or leased (you will give the car back at the end of the term).

If purchased, the car will be an asset owned by the company, all the running costs, including the fuel, will be an expense of the company, and you will also be able to claim a tax deduction each year on the cost of the car.

If leased, the monthly payments and all the running costs will be an expense to the company.

With the government wanting to encourage the use of low or zero CO_2 emission vehicles, it may be most beneficial for you to choose an electric car for your company car. You can read all about the pros here.

If you purchase a van for the company then the whole cost of the van can be shown as an expense in the year of purchase, and all the subsequent running costs. Capital allowances/ Depreciation - Larger items purchased for your business to use – i.e. equipment such as a laptop or camera will be classed as capital purchases, an asset of the business (as a rule of thumb equipment over the £100 mark could be classed as capital purchases). These are dealt with differently for tax and accounting purposes. For accounting purposes, the asset will need to be depreciated over the useful life of the asset (generally 3-5 years) and the depreciation will be included as an expense in your profit and loss statement. However, for tax purposes you have an annual allowance and are able to claim the whole cost of the item as a capital allowance when working out your tax bill, therefore the depreciation expense will be added back on to work out your profit.

Fines are NEVER tax deductible, so if you've paid for any fines through your business the cost of these will be added back on to your profit to work out the profit you will pay tax on.

One of the most common questions I get asked is "what can you include as expenses in your accounts?", please look at the following links for Limited Companies details here.

TOP TIP:

Set up a separate bank account for tax savings

TOP TIP:

Do it as you go – doing a little each week is less one go!

QUESTION:

What is the different between Gross Profit and Net Profit?

Gross profit is your sales less your direct costs/costs of sales.

Net profit is your gross profit less all your overheads – i.e. what's left after all your expenses.

PAYE

If you employ others to work for you (or you are a director and employed by your own company) then you will need to register for PAYE and complete the required returns. You can learn all about how to pay yourself here.

You can register for PAYE with HMRC online here https://online.hmrc.gov.uk/login

A formal contract will be required for your employees stating the terms and conditions of employment. It may be worth speaking to an HR consultant to confirm your responsibilities as an employer.

You will need to decide whether you will be paying your employees weekly or monthly. Each pay day will require you to file a return with HMRC – known as RTI filing. There are 3 types of return:

EAS (Employer Alignment Submission) – to align the records currently held by HMRC to your payroll – usually done once before your first payroll run, or if you change your software.

FPS (Full Payment Submission) – submission made each time an employee is paid on or before the payment date giving HMRC all the details of the payments and deductions for PAYE & NI.

EPS (Employer Payment Summary) – to notify HMRC of any changes to the tax and NI due, as well as a nil payment if no employees have been paid for that pay period, and to claim back any statutory amounts A P60 will need to be given to each employee at the end of the tax year showing a summary of the amount they have been paid and the PAYE deducted, and if you have supplied any benefits (i.e. medical insurance or a company car) then you will also need to complete a P11Db at the end of the tax year and file with HMRC, and supply a P11D to each employee.

AUTO ENROLMENT & PENSIONS

Auto enrolment is a massive change to the business world. Each employer with employee between 22 and state pension age earning over £10,000 pa will need to enroll their employees on a pension scheme. The employer (you) and the employee will both make contributions into a pension fund. The contributions are being staged in, but will be up to a minimum of 3% employer and 5% employee contributions. Employees can opt out if they wish, and other employees who don't meet the auto enrolment criteria can opt in.

Sole Director companies are exempt from auto enrolment, but will need to declare the exemption. You will receive a letter from The Pensions Regulator with your letter code.

You will need this and your PAYE reference to register with The Pensions Regulator, and complete your Declaration of Compliance. The requirements of auto enrolment are quite in-depth - check what you are required to do and the process here www.thepensionsregulator.gov.uk/en/employers

It is worth mentioning that if you are a sole director it is beneficial looking into a pension. You can set it up through your company so both your company and you personally contribute. Whether it's through auto enrolment or a separate pension the employer's contribution is always tax deductible.

CIS

As mentioned earlier, if you work in construction you will need to register for the Construction Industry Scheme.

If you are a contractor, you will need to verify your sub-contractors, and deduct CIS tax from their payments. This is usually 20%, but in some cases HMRC may advise you to deduct 30%.

This is then paid to HMRC. You will also need to complete a monthly statement online to HMRC and supply Deduction Statements to your subcontractors showing them how much they've been paid each month, and the amount deducted and paid to HMRC.

If you are a sub-contractor, this means you will be paid less 20% (or sometimes 30%) CIS tax which is paid to HMRC by the person/ company you are working for.

If you are a sole trader, then you will include the total amount of CIS deducted in a tax year in your tax return and the tax paid will be offset against the tax due, usually resulting in a tax refund (a great reason to get your tax return done quickly!).

If you are a limited company, you will need to file a monthly EPS through your payroll software to report the CIS you've had deducted (known as suffered) from your payments. At the end of the tax year (not your financial year) you will need to write to HMRC to request your refund. You can request for this to be offset against your corporation tax return.

If you are both a contractor and a sub-contractor, then you will need to do both returns each month.

As a limited company, the amount you've had deducted each month will be offset against the amounts you've deducted from your sub-contractors. Any difference will either be due to HMRC or will sit on your account.

At the end of the year, if there is any balance on your account you can write to HMRC and request a refund.

VAT

Once you reach the VAT threshold (currently £85,000) you will need to register your business for VAT. This threshold is based on your turnover for any rolling 12-month period – not necessarily your financial year. You can register online here.

The **standard** way of calculating VAT is to add the VAT rate to your sales price – i.e. your sale price is £100, and the current VAT rate is 20%, therefore you will add 20% of £100, giving you a total invoice value of £120.

You will also be paying VAT on some of your purchases – you will need VAT receipts or purchase invoices/bills for your records, which will show you the amount of VAT you are paying.

If you run a VAT-registered business with a taxable turnover above the VAT registration threshold, you are required to keep digital VAT business records, and send returns using online software in line with the government's Making Tax Digital initiative. Find out more about how that will affect you here.

Cash helps to match your VAT payments to your business' cash flow. It is very similar to standard, but rather than based on invoices, it is based on the actual cash you have paid and received. Therefore, you don't have to pay out the VAT to HMRC until you have actually received if from your customer.

Flat rate was initially set up to reduce the admin burden for small businesses – you charge standard rate as normal, but on you return you use flat rate for your industry:

I.e. sale price is £100 – add 20% VAT to price on invoice to customer.

Flat rate worked out at % of £120 i.e. 14.5% - VAT owed to HMRC is £17.40.

TOP TIP:

Transfer sales VAT to a separate account when received to save for your VAT bill, any extra at the end of the quarter can be transferred back.

INSURANCE

When running a business, you will need to insure yourself. The main insurance policies required are as follows:

- **PII** - This covers you against third parties if they sue you as a result of your advice or actions. For the majority of companies this is a minimum requirement.
- **Employers Liability** – If you employ staff this is essential. This covers you and your company (the employer) against claims by an employee for injury etc.
- **Public Liability** – This covers you against third parties if they claim to have suffered because of your actions.

GETTING A MORTGAGE

Just because you work for yourself or own your own company doesn't mean that you can't get a mortgage. Mortgage companies will accept details from your tax returns, and your limited company accounts as part of your application. They may also require projections for the next year, which an accountant will be able to prepare and sign off for you. It is a good idea to have at least 2 tax returns or 2 sets of limited company accounts before speaking to a mortgage broker.

WORKING WITH A BOOKKEEPER AND ACCOUNTANT

Let's face it, not many of us are good at delegating, especially when it's going to cost us money. I know I'm very bad with this, but I am getting better and I now realise I can't do everything myself! The big question is though - why hire an accountant when you can do the work yourself and file your own tax return?

Let's look at it one way - time is money - why spend your time doing your accounts when you could be getting someone else to do it and better spend your time earning more money? For example, say you earn £20 an hour, and you use a cleaner who costs £10 per hour. It takes you 2 hours to do the cleaning - so when you do the cleaning, it costs you £40, however a cleaner will cost you £20. Therefore, using the cleaner and working those two hours instead, actually saves you £20 - makes sense when you look at it that way!

You started your business to do what you're good at. An accountant is good with the financial side of things and is in business to do accounts. A good accountant will save you money rather than cost you money, and will make life easier for you, giving you more time to do what you love.

An accountant may be a necessity for some businesses. If you do not have the relevant skills required to keep on top of your finances an accountant will be able to assist you. An accountant will know all of the necessary rules and requirements, and what needs to be done when, for example, expenses you can claim, how to prepare your accounts, how and when to prepare payroll returns and file them with HMRC, how VAT works, and much more. Knowing the right expenses to claim could save you the accountants fees alone!

If you are a limited company, you will need to file your accounts with HMRC as well as with Companies House. HMRC require the accounts to be filed in a certain file format, and an accountant will have the software to produce the files in the required format. The software itself can be very costly.

You would also need an accountant if you were looking to buy a new house and obtain a mortgage, or to get a loan, to certify your (and your company's) earnings.

An accountant can do as little or as much as you would like them to do - from completing a review of your books, preparing your tax return, to a fully managed bookkeeping and accountancy service. You can engage them for a one off task or keep them on a monthly/ annual retainer for a range of services. Maybe the question should really be "can you afford not to have an accountant?".

HOW DO I CHOOSE AN ACCOUNTANT?

You've made the decision to hire an accountant, but how do you decide which accountant to use?

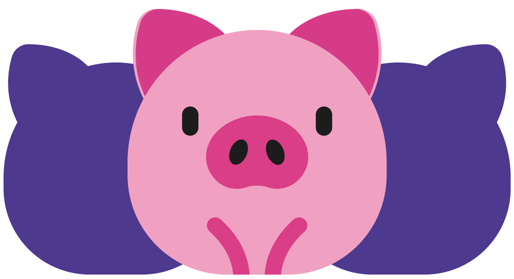
There are many ways to find accountants – speak to your friends, peers, customers, and social networks and ask for recommendations. This is a great way to see who has a good reputation and who you are probably better off staying away from.

I get a lot of recommendations through Facebook groups where people ask for recommendations – word of mouth is an excellent way of finding someone to help you.

Many professional accounting bodies and software providers have a directory of their members or certified partners, where you can search for accountants in your local area.

Some things to think about and ask when meeting with a potential accountant are:

- With cloud-based software, communication and collaboration with your accountant is made easy wherever you are. Your accountant no longer needs to be local. However, if you prefer face to face meetings then look for someone local.
- What sort of service do you require? Do you want a fully managed package where you don't need to do anything other than run your business, or do you want someone to just do your year-end accounts and/or tax returns?
- What software do they use – can you access it (i.e. cloud software)?
- Does the accountant work on fixed fees or an hourly rate? What is included in their fees? Do they charge extra for advice/telephone calls/answering emails etc.?
- Do you have a niche or specialised business? If so, it could be beneficial to appoint an accountant with the relevant expertise and experience. Ask for details of their experiences in your business sector.
- What are their qualifications? Do they belong to a professional body? Do they have a license to practice? There are lots of people setting up as accountants who do not have the necessary qualifications. The most common to look out for are AAT, ACA, ACCA, CIMA, CIPFA, ICAS and ICAEW. All accountants should have a license to practice through their professional body. Do not be afraid to ask for these.
- Always ask for references too. You may have noticed I have a few references on my website and I will always be happy to give you details of clients to contact (once I have the authority from them to do so), so you can speak to them directly and ask any questions about me and my service. If an accountant is unwilling or unable to do this, it should set off some alarm bells!



Book a discovery call >>

Remember, you get what you pay for and quality of service is essential for you and your business. Don't necessarily go with the cheapest (although please note sole traders will be cheaper as they generally work from home and have less overheads, whereas larger practices have offices and staff and more overheads to pay for so will be more expensive).

Your accountant will need to know a lot of personal information about you, so it is very important that you feel comfortable working with them, and most importantly that you trust them.

It is a good idea to meet with a few different people to see who 'gets' you and your business, and see who you connect with on a personal level. Yes, it's will be a business relationship, but you'll be working with them hopefully for a very long time, so it's important to connect on a personal level too.

I know it sounds cheesy, but trust your gut feeling – if you don't like someone, even if you can't put your finger on why, trust your instinct and don't choose them!

It is very easy to change accountants (so don't listen to any scare-mongering about how hard it is) and don't be afraid to change if you're not getting the service you want.

A good accountant will save you money, not cost you money, they could be your most valuable asset.

DISCLAIMER: The advice within this e-Book is generalised. Please seek an accountant for specific advice relating to you and your business.

USEFUL LINKS

Here are some useful links:

News & updates from Pink Pig Financials >>

HMRC >>

Current Rates and Allowances >>

Companies House >>

Sign up to my newsletter >>

The Pension Regulator >>

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