

Business Start Up Guide from the Institute of Business Advisers

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Choose the right legal status for your business

What type of business can I set up?

There are four types, sole trader, partnership, limited company and community interest company.

1. Sole Trader

The most common form of business type

Advantages

- No costs involved, only have to advise/register with Inland Revenue
- Special low National Insurance contributions for self-employed
- Profit regarded as your own income, just pay the required income tax
- Less paper work and you have overall control of your business

Disadvantages

- Unlimited liability for debts of your business. All your savings and house could be at risk
- Lack of prestige when compared with limited company

2. Partnership

When two or more people wish to set up a business

Advantages

- No costs involved, only have to advise/register with Inland Revenue
- Can have a flexible partnership structure
- Risk sharing and probably a variety of different skills available
- More finance may be available for the business

Disadvantages

- Unlimited liability for each partner
- Disagreement between partners can be detrimental to the business
- All partners can be held responsible for any one partners negligence

3. Limited Company

Advantages

- Has a separate legal identity to that of its owners with the name of the company protected by law.
- You have limited liability and are not personally responsible for the debts of the business
- Can raise finance by selling shares and employees are able own shares
- Prestige, in the eyes of suppliers and customers

Disadvantages

- Must comply with a wide range of legislation which does not apply to sole traders or partnerships
- You have to publically disclose your accounts
- High administrative burden

4. Community Interest Company

New legal format particularly for social enterprise type businesses

Advantages

- Ideal for companies with a strong social and environmental aims
- Provide a new way of selling goods/services with benefits to the local community

Disadvantages

- Not able to register until late 2005
- Must have tangible benefits to the local community



How do I set up as a sole trader and what are my legal obligations as a sole trader?

Setting up as a sole trader

- During the first three months of trading it is necessary to contact your local Inland Revenue office to register as a self employed sole trader. The new name for the IR is Her Majesties Revenue and Customs (HMRC) which also covers the work of the former Customs and Excise.
- The HMRC can be contacted either through their web site or the local telephone directory.
- If you expect your turnover to exceed the threshold for VAT (£60,000 in 2005/6) you must also advise and register with HMRC.
- If you do not register as a sole trader within the first three months you could incur a penalty/fine by the HMRC
- You do not have to register with Companies House.

Legal obligations of a sole trader

1. Income Tax

The HMRC are, these days, a user friendly service and are very willing to help enquirers. However if you try to mislead them you may have problems

- All profit from the business is treated as personal income
- You must, therefore, complete a self-assessment tax return obtainable from HMRC
- Profit is your total income less your allowable business expenses. Allowable expenses can be obtained from the HMRC web site
- If your turnover is below £15,000 per annum you need only complete three lines on the self assessment form. Your total income, your total allowable expenses and your profit (income less expenses).

2. National Insurance

- Sole Traders are required to pay Class 2 and Class 4 National Insurance contributions at the current rate specified by HMRC
- The HMRC issue guidance on NI contributions. This information can be obtained from their web site or by contacting them by telephone.
- It is possible to set up a system whereby the NI contributions are paid by you on a monthly basis by direct debit or standing order.

3. Record Keeping

- It is essential that proper records are kept of all transactions. This includes money paid to you and expenses incurred in the running of the business.
- Your accounts do not have to be audited in the same way as a limited company



How do I set up as a partnership and what are my legal obligations as a partnership?

Setting up as a partnership

- It is preferable that the partners draw up a deed with a solicitor to set out the terms and conditions of the partnership
- During the first three months of trading it is necessary to contact the local Inland Revenue office to register as a self-employed partnership.
- The new name for the IR is Her Majesties Revenue and Customs (HMRC) which also covers the work of the former Customs and Excise. The HMRC can be contacted either through their web site or the local telephone directory.
- If you expect your turnover to exceed the threshold for VAT (£60,000 in 2005/6) you must also advise and register with HMRC.
- If you do not register as a partnership within the first three months you could incur a penalty/fine by the HMRC
- You do not have to register with Companies House.

Legal obligations of a partnership

1. Income Tax

- Profit made from the partnerships operations is divided equally between the partners-unless indicated otherwise in the deed of partnership.
- All profit from the business is treated as personal income to the partner concerned.
- Each partner must, therefore, complete a self-assessment tax return obtainable from HMRC
- Profit is your total income less your allowable business expenses. Allowable expenses can be obtained from the HMRC web site
- If your turnover is below £15,000 per annum each partner need only complete three lines on their self-assessment form.

2. National Insurance

- Partners are required to pay Class 2 and Class 4 NI contributions at the current rate specified by HMRC
- The HMRC issue guidance on NI contributions. This information can be obtained from their website or by contacting them by telephone/in person.
- It is possible to set up a system whereby the NI contributions are paid by you on a monthly basis by direct debit or standing order.

3. Record Keeping

- It is essential that proper records are kept of all transactions
- A profit and loss account and a balance sheet has to be produced.
- Partnership accounts do not have to be audited in the same way as a limited company

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How do I set up a limited company and what are my legal obligations as a limited company?

Setting up a limited company

- A limited company must register with Companies House before it starts trading. This involves completing certain documents and paying a fee. An accountant or solicitor may be of help or alternatively contact Companies House through their web site (www.companieshouse.gov.uk). There is a high administrative burden on the company.
- A limited (private) company must have a minimum of one shareholder, at least one director and a company secretary.
- Shareholders are not normally actively involved with the company. When they are, they are classed as employees. In practice shareholders and directors are the same people in small companies.
- There are restrictions on the business name used by the company. More details from Companies House. It is possible to buy an existing "off-the-shelf" company through a Company Registration Agent, accountant or solicitor. This means that the company can begin trading almost immediately as the paperwork will have already been completed.

Legal obligations of a limited company

1. Income Tax

- Must pay corporation tax on any profits
- All employees, including directors, must pay income tax under the PAYE scheme. Limited companies also pay employers National Insurance contributions for each employee.

2. National Insurance

- Employers and employees (including Directors) pay Class 1 National Insurance contributions

3. Record Keeping and Accounts

- Limited companies are required to produce and file annual accounts and an annual report with Companies House.
- If a limited company has a turnover of less than £5.6 million and a balance sheet total of £2.8 million or less they are exempt from the requirements to have their accounts audited.
- The Inland Revenue (now the HMRC) require that accounts providing sufficient detail should be submitted for self-assessment purposes



FAIL TO PLAN - PLAN TO FAIL

(Or the benefits of a simple business plan for a eBay based business)

1. Background

- All successful businesses plan for today and tomorrow
- Plan must be regularly updated at least annually
- Plan must be used!

2. Why produce a business plan

- To aid and support the business vision
- To have a clear idea of the future direction and business purpose
- To keep ahead of competition
- As a selling document if seeking funds
- Keep it short and simple, be realistic and honest. Start with an outline.

3. Business Plan Format

1. Business description

Include the aim of the business, its legal status and who owns it

2. Experience

Explain what experience you have in running a business, whether you have run one before plus any other relevant information about yourself and any eBay trading experience.

3. Business location

Indicate the location of your business (presumably your home).

4. Marketing

Who do you expect your typical customer to be, what will you sell to them, how will you control your income? Who do you anticipate will be your competition, do you have any advantages over your competition?

5. Financial Requirements

Do you need money to start and run your company (buy stock)? If so how much and where will you obtain it?

6. Costings

What mark up on your purchase price will you apply to cover your expenses?
(Purchase price plus expenses less selling price = Profit). Does it cover postage?

7. SWOT Analysis

This stands for strengths, weaknesses, opportunities, threats, and is a useful marker to see whether your business stands a chance of success.

8. Cash Flow

On a single sheet of paper indicate the income at the top of the page and the expenses below. Attempt to predict the flow of cash through the business over the next 12 months.

9. Future Developments

Explain how you would like your business to develop and grow. What realistic level of income would you like to reach? How many hours per day would you anticipate trading to reach your target?

Remember always the saying: FAIL TO PLAN, PLAN TO FAIL



Tips on sourcing and selling for ebay businesses

Remember that there is nothing complicated about sourcing and selling. Keep things simple at all times.

1. Sourcing

- Make sure the product is of good quality, this will encourage repeat purchases from customers.
- Try and select a reliable source for your product.
- If you manufacture the product try and ensure that your manufacturing price will enable you to make good profit when you sell.
- Be aggressive, but fair, when buying.
- Buy from more than one source.

2. Distribution

- Negotiate distribution costs
- Try and ensure that the weight of your product is in line with the cost of distribution (maximum weight at minimum cost).
- Get quotations from all sources. Post Office, TNT WPS etc.
- Obtain quotations for insuring your product during delivery.
- Don't try and distribute on the cheap, it's not worth it!
- Make sure that the packaging you use will not damage your product or break open during transit. Use reliable packaging.

3. Selling

- Always use the advice given by eBay on selling online.
- Ensure that the price you accept will give you a profit. Put a reserve on the price you will accept.
- Ensure that the photograph you use to sell your product is of good quality and puts your product in the best light.
- Be honest at all times. Do not overstate or understate your product in the description.
- Get yourself known on eBay as a reliable supplier.
- If you are successful on eBay consider other methods of selling as an alternative to grow your business.
- If already selling by the traditional method, use online trading through eBay as an alternative selling method
- Use eBay as a means of selling into offshore (export) markets. But do understand the risks involved.
- Use PayPal, or others, as a means of ensuring that you receive the money from your buyer. Remember that you haven't made a sale until you have received the money.

How do I keep the finances of my eBay business under control?

1. Record Keeping

- It is essential in running any business that you keep good, accurate records.
- Do not automatically put receipts etc into a shoe box and then give them to your accountant at the end of the financial year. This will not only cost you money in fees paid to your accountant, but you will not be in control of your finances on a regular basis.
- If you want to use shoe boxes use four of them. One for sales invoices, one for unpaid bills and transfer to the other two boxes as each invoice is paid.
- Carry out an income / expenditure exercise every month.
- Buy a "small business accounting" box set.

2. Book Keeping

- Buy a simple bookkeeping set from your local stationers and use it
- Use a specialist book keeping company. They are small businesses also.
- Attend a simple accounting for business course at your local college, Business Link or Enterprise agency.
- Set aside a period of time during the week/month to update your accounts. This can be easier said than done. To be successful you have to do it!

3. Accounting Software

- On the basis that you are trading online use your computer knowledge to maximum effect and use accounting software.
- There are many organisations who sell such software at reasonable prices. As a starter try Sage, TAS, Do\$h, QuickBooks Clearlybusiness or see what your bank has to offer (this could be free).

4. How to choose an Accountant

- Recommendation from another business. Ask around.
- Use Yellow Pages or other such directories.
- Contact the Institute of Chartered Accountants, Association of Chartered Certified Accountants who will advise of accountants in your area.
- Choose an accountant who is used to small businesses.
- Make sure that you know what fees you will be charged before you enter into any agreement.

5. Taking Payment

- As an eBay business, use the payment method recommended by them. This is PayPal, who are owned by eBay. Without effective payment collection your business will have many problems.



How do I obtain additional finance?

There may come a time when your fledgling eBay business needs money to expand. You may need to buy stock, new equipment, or need to move to new premises. Various organisations have money in the form of loans and/or grants to help legitimate businesses expand providing the criteria they lay down are met. A business plan may well be essential if you wish to expand your business.

Where should you look for sources of finance?

- Friends and relations. May or may not be interest free.
- If you are aged 18 to 30 years, work less than 16 hours per week or are unemployed, unable to get money from other sources and have a good business idea then try the **Prince's Trust** where it is possible to obtain a low interest loan of up to **£4000** or a grant of up to **£1500**, ongoing business support and ongoing business advice from a volunteer business mentor.
- **Local and National Grant** awarding bodies. Contact your Local Authority, your Local Enterprise Agency and Business Link or Charities. Look on the DTI website. However bear in mind that you may/will have to provide the same amount of money as you receive in a grant. If you are in an area of special needs, say an inner city or a rural area then you may have a better opportunity of obtaining a grant, depending on the criteria required
- **Your local bank**. The most common way of obtaining finance. But you must have a business plan and will have to make a presentation to the local manager. You will have to give collateral (in case you default on the loan and the bank needs to recover its loan). The rate of interest and the payback period have to be considered. However do not be put off if you are turned down by one bank. Try them all and ask.
- **An overdraft from your business bank**. Must be authorised by the bank otherwise you may well have to pay large fees for going overdrawn.
- **Enter competitions**, such as Shell Livewire, Dragons Den (as seen on TV).
- **Small Firms Loan Guarantee Scheme**. Funded by the DTI operated by the banks
- **Other Options**. Factoring, Business Angels, Leasing and hire purchase, Venture Capital, European funding. For all these options specialist advice should be sought. However they may not be the right options for your business.
- **Credit Cards**. Not normally recommended due to the high cost of the loan repayments. Be careful with this option.

A great deal of effort is required to obtain finance, but if the criteria of the grant or loan awarding body are met, your effort may well be worthwhile.



Where can I find more information about business and business advice?

If you enter "business advice" into any search engine you get 2,390,000 options. Most people have better things to do than go through these options. To make things easier some of the major ones are indicated below. The ones below are just a few of the many.

1. Government Agencies

- Department of Trade and Industry (DTI) www.dti.gov.uk
- H M Revenue and Customs (HMRC) www.hmrc.gov.uk
- Find your local council www.direct.gov.uk

2. Banks

- All the major Banks have a business section offering information and advice. Normally of good quality. Log on to their websites to see what is best for you.

3. Solicitors

- To find and choose a solicitor in England and Wales log onto the Law Society of England and Wales site at www.lawsociety.org.uk or for Scotland the Law Society of Scotland site at www.lawscot.org.uk.

4. Accountants

- To find and use an accountant log on to either The Institute of Chartered Accountants site at www.icaew.co.uk or the Association of Chartered and Certified Accountants www.accaglobal.com

5. The Princes Trust www.princes-trust.org.uk

6. Miscellaneous

- www.allbusiness.com
- www.startups.co.uk useful for advice on raising finance
- www.bcentral.co.uk Microsoft's web site for small businesses
- www.is4profit.com provides free and relevant business advice

Where do I go for business advice?

1. The Institute of Business Advisers

This is the professional institute for business advisers

- Any business owner visiting the IBA website (www.iba.org.uk) can now quickly and easily find IBA members who are able to give the most appropriate advice for their type of business.
- ADVISER LOCATOR currently lists the IBA members by region, alphabetically. Click on the members name and a page will appear showing the members area of expertise and the geographical area in which they work.
- Contact the appropriate member directly by email from the site.

2. Business Link

A National organisation that gives practical advice to businesses

- Click onto www.businesslink.gov.uk to find your local Business Link and proceed from there.

3. Enterprise Agencies

Enterprise agencies are located in most towns and cities. They give support for start up, micro businesses and the self-employed. They have a national organisation which is The National Federation of Enterprise Agencies

- Click on to www.nfea.com to find your local agency and proceed from there.

4. The Small Business Advice Service

This is an online enquiry service offering free independent professional advice

- Click onto www.smallbusinessadvice.org.uk and proceed from there

5. All Business Advice

Provide practical advice and resources to help small and medium enterprises succeed

- Click onto www.allbusiness.com and proceed from there.

There are many organisations who offer business advice in addition to the above. However it can be a difficult and confusing task to find the most appropriate adviser skilled in the right discipline and who is available to talk to them right away. The cost of receiving advice can also vary. Always get competitive quotations.