

Article topic: Business Services

August 2011

Getting it right first time

The decisions you make when setting up a business affect how clients perceive you, how much tax you pay and what you finally get out of the whole enterprise.



Debbie Boulton
Associate Director

Target specialises in the needs of business owners and we've helped many start-ups grow into highly successful organisations. Based on this experience, we've compiled some top tips for anyone about to launch a new business venture:

1. **Choose the right business vehicle** – do your homework on whether you should be a sole trader, partnership, Limited Liability Partnership, or a company. This has a big impact on tax and on your exposure to risks.
2. **Get the right initial funding** – think beyond bank loans. Third-party investors may be interested in tax breaks from Enterprise Investment Schemes and Venture Capital Trusts and you should explore Government and regional grants, which are available across a range of sectors.
3. **Keep it organised** – proper record keeping from day one will save immeasurable grief later on. Choose the right system for your needs and make sure you register your new business with HM Revenue & Customs within three months to avoid a £100 fine. Using an accounting product like Target Online helps to keep you organised and on track. It takes over the compliance burden so you can focus on running your business. Target Online gives you monthly or quarterly management reports; in fact, all of the important information you need for effective decision making.
4. **Use your expenses** – more expenses are eligible for tax relief than you might think. Don't forget you can claim a proportion of household costs if you're running a home office and can use any expenses incurred whilst setting up the business. There is no time limit on tax relief for legitimate set up expenses and you can also backdate VAT claims up to six months.
5. **Consider registering for VAT** – if your clients are VAT registered then charging VAT won't matter and you can claw back VAT on your business expenses. Take advice on the flat rate scheme, which could save you money, and cash accounting, which could improve your cashflow. Being VAT registered may improve your image too.



6. **Remember research and development** – you don't need a laboratory to do 'research'. Make sure you understand what qualifies – small companies can claim 200% of qualifying costs from 1 April 2011, giving you back up to an extra 26p for every £1 spent. If you're not sure, ask. It's better to rule out an expense than to ignore it.
7. **Maximise capital allowances** – the new Annual Initial Allowance gives you 100% tax relief on the first £100k of plant and machinery until April 2012, when it reduces to £25,000. You should also consider 'green' assets that attract 100% relief – many items qualify such as eco-cars, water systems and air conditioning.
8. **Maximise loss relief in the early years** – if you are a sole trader or partnership, you can carry back losses for up to three years before you started your business. For example, if you were employed while getting things off the ground then you could get back some of the tax you've already paid on your salary.
9. **Pay yourself smart** – use the right combination of salary, dividends and pension contributions. You will need to comply with the rules, but different remuneration strategies can make a big difference to your tax bill.
10. **Keep an eye on the horizon** – you should have an exit strategy in mind right from the start. It will mean you can minimise Inheritance and Capital Gains Tax whilst maximising your wealth. Take time every so often to ask yourself if you're heading in the right direction.

For more information on business start-up issues, please speak to our Business Services team.

Your contacts

Bath
Duncan Nicholas
01225 486 300

London
Simon MacDonald
020 3077 3110

Reading
Mike McAllister
0118 958 1331

Midlands
Will Lodder
01788 539 000

This document has been prepared as a general guide. It is not a substitute for professional advice. Neither Target Chartered Accountants or its employees accept any responsibility for loss or damage incurred as a result of acting or refraining from acting upon anything contained in or omitted from this document. Target Consulting Limited is registered to carry out audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

