

# BUSINESS START-UPS - KEY FINANCIAL DECISIONS



Whitepaper

When you start a new business there are a handful of basic but crucial decisions that need to be made at a very early stage. This briefing aims to present a very high level overview of just a few of them.

## SHOULD I INCORPORATE MY BUSINESS?

More often than not incorporation will result in greater tax planning opportunities and a lower overall tax burden for your business. It also has other benefits such as commercial perception and the comfort of limited liability.



That's not to say that incorporation is always the right answer. Some of the drawbacks of incorporation include the financial details of your company (as well as personal details of its directors and shareholders) being publicly available and less flexibility over tax relief for any losses that the business may incur.

There's also a small degree of additional administration involved, but this factor is often exaggerated and can be mitigated through establishment of efficient, streamlined back office and financial reporting systems.

It's surprisingly easy and quick to incorporate a new business. A basic incorporation can be processed at a relatively low cost (**under £100 + VAT including Companies House fees**) and electronically submitted incorporations are often turned around by Companies House in less than 24 hours.

## SHOULD I REGISTER MY BUSINESS FOR VAT?

Whether your business is incorporated or not as soon as your annual turnover (excluding VAT exempt sales) hits the registration threshold (**currently £85,000**) you have to register for VAT.

However, you can voluntarily register your business for VAT at any time and there are a number of benefits of doing this including:



✓ Business perception – many other businesses view a VAT registered business as more credible and less of a credit risk

✓ Input VAT becomes reclaimable – you will be able to claim any input VAT on goods or services purchased in order to make VAT-able sales. This can include VAT on goods bought up to 4 years prior to registration (6 months for services)

As a general rule if you are supplying goods or services primarily to other VAT registered businesses then it is worth considering voluntary registration as these business should be able to re-claim the VAT that you charge them.



If you are selling to the public (who won't be able to recover the VAT you charge) then VAT registration will increase the amount you need to charge them to maintain your profit margins. However, if you expect your business to hit the VAT registration threshold in the short to medium term then it may still be worth registering so that you can re-claim input VAT immediately and avoid having to impose a price hike on your established customers once you do have to register.



You should also consider the use of various VAT schemes (such as the **flat rate and margin schemes**) in order to both minimise administration and limit financial exposure.

Registering your business is usually relatively straightforward. A basic application managed by a professional firm such as ours should cost you no more than £100 and so long as there are no complications HMRC rarely take more than around two weeks to process the application and issue you with a VAT number.



## HOW DO I FUND MY BUSINESS?

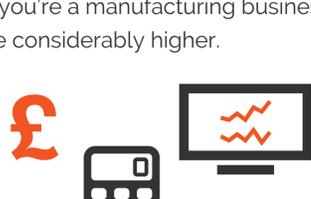
How you fund your business will depend largely on the nature of your enterprise and your personal financial situation.



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If you're a manufacturing business then your initial outlay and on-going costs are likely to be considerably higher.



No matter what the nature of your business you'll also need to consider your own living costs until you start generating profits. It's essential that any new business undertakes some form of budgeting exercise at the outset to determine the level of initial and on-going funding they'll require.



Top Tip

There's no doubt that the cheapest way of funding your business to start off with is through personal savings but you need to make sure that you have enough to cover a worst case scenario. The number one cause of business failure is cash-flow problems. Even if your business is profitable you need to ensure it has enough cash to fund day to day operations.

If you don't have enough savings to get you by in the short to medium term then alternative forms of finance include bank loans, venture capital investment or peer to peer lending. To secure this form of funding you'll need to draw up a detailed business plan which sets out both your financial and operational strategy for the medium to long term.



**Chaddesley Sanford** can help you to identify your funding requirements by putting together initial budgets and will also help you put together a detailed business plan if you do need to secure third party funding.

## HOW DO I KEEP TRACK OF MY BUSINESS FINANCES?

It is essential that you keep your day to day bookkeeping as up-to-date as possible. Some of the benefits of well-kept financial records include:



✓ A lower risk of errors that could lead to bad financial decisions or non-compliant tax or statutory submissions

✓ A lower administrative burden for you as the business owner

✓ A lower accountancy costs arising from a decrease in the volume of non-value-adding administrative work required from your advisor

✓ Access to live financial information which can be used to make better financial decisions

Almost all accountants will now prepare your financial statements and tax computations electronically, not least because an increasing number of these documents now have to be filed electronically with HMRC. Therefore, if you are still only keeping paper records of your financial transactions then your accountant will have to spend a lot of time transferring these to an electronic format. This will significantly increase the amount that they charge you for their work without actually adding any value to it.

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Chaddesley Sanford have been working with cloud based accountancy software providers **Xero** and **Receipt Bank** since we were all start-ups ourselves. We are platinum "**Xero**" partners and sterling silver "**Receipt Bank**" partners, subscription to both their online software is included as an integral part of the service we offer to our clients.

We can help you to tailor the software and its integrated add-ons (such as cloud based point of sale systems) to your needs and provide a full on-going support service.

## WHAT DO I DO NEXT?

If you've recently started your own business (or are thinking of doing so) then please give Matthew Gambold a call on 0207 183 6088 or email him on [matthew.gambold@chadsan.com](mailto:matthew.gambold@chadsan.com). Matthew can talk you through all of the above and more, as well as explaining how Chaddesley Sanford can help you make the right financial decisions at the right time on an ongoing basis.



**Matthew Gambold**  
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**CHADDESLEY SANFORD**