

'Easy as'

THE GUIDE  
TO SETTING  
UP YOUR  
COMPANY

**HOW TO SET UP YOUR COMPANY FOR SUCCESS,  
WITHOUT THE STRESS!**



[www.bluerocketaccounting.com](http://www.bluerocketaccounting.com)

# READY FOR LAUNCH?

## Read this first...

Boom. You've had a stroke of genius and now the world needs to know about your new product or service, so you're striking out and setting up on your own.

Start-ups and small businesses are incredibly important for our economy. They create new jobs, introduce new markets and innovation, as well as add value to regional areas and contribute to the UK's annual turnover.

Great!

But no matter how much effort or hours you pour in, as a start-up you could find yourself getting bogged down by the challenges and complexities involved with setting up and running a business.

Which is why we want to support small businesses and their growth ambitions wherever possible.

We're going to look at 5 of the key areas you need to consider as you go about setting up your company, hopefully helping you avoid common pitfalls and putting you on the path to success.

## COVERING...

- Structure. What do you want to look like?
- Tax. Like birth and death, you can be certain of it.
- Insurance. Make sure you're covered.
- Funding. Show me the money!
- Advisors. Stand by me.
- Resources.

# 1. What do you want to look like?

Some of the earliest decisions you make about your company can have an impact on the future growth of your business. No pressure then.

Choosing which of the four main start-up structures is right for your business is one of the first decisions you need to make and will affect the way you pay tax and how you are protected under the law. There's no right or wrong way, you just need to consider which structure is most beneficial to you.

It's also worth remembering that you're not making a lifelong commitment, you can change the business structure as your company grows and your needs change.

We've created a handy grid showing the advantages and disadvantages of each structure:

Type	Structure	Pros	Cons
Sole trader/Self employed	A self-employed individual running their own business, entitled to keep all profits but liable for losses	Low cost Retain full control	Directly responsible for the debts and other liabilities incurred by the business
Partnership	Two or more individuals coming together to run a business, sharing both the management and the profits	More options for raising finance Easy to form, manage and run	Partners are liable for debts incurred by the business - choose who you go into business with carefully
LLP	Each partner's liability is limited to the amount they put into the business	A separate legal entity, less personal financial exposure	Financial statements made available to the public. The company must start trading within a year of registration
Limited company	Private company that protects shareholders with limited liability	Less personal financial exposure Separate legal entity	Annual reports and statements made available to the public

It's a big decision, but your accountant will be able to advise on the best structure for you, as well as making sure you're registered with the relevant tax departments, such as VAT, Corporation Tax, and PAYE.

## 2. Like birth and death, you can be certain of it

### VAT is a tax on consumer expenditure.

Most business transactions involve the supply of goods or services and VAT is payable if they are made:

1. In the United Kingdom
2. By a taxable person
3. Are not specifically exempted or zero-rated.

Get ready  
for the  
detail...



### When do you need to register for VAT?

There are two different types of registration - compulsory and voluntary:

Compulsory	Voluntary
A person or business who makes taxable supplies needs to register if:	Sometimes it's possible to register on a voluntary basis for VAT, even though the value of taxable supplies may never exceed the registration limit.
At the end of any month, the value of taxable supplies in a rolling twelve-month period has exceeded the registration limit, which is currently £85,000	Where the majority of supplies are being made to customers who are themselves VAT registered.
At any time, there are reasonable grounds for believing that the value of taxable supplies in the next 30 days will exceed the registration limit.	Where the supplies are all zero-rated and no VAT is charged on the transaction. This allows all of VAT suffered by the trader on expenses to be reclaimed from HMRC.

### What VAT rates are there?

The rates you pay vary depending on the services or goods you supply.

- Standard rate: 20% for all goods and services which do not fall into the other categories below.
- Reduced rate: 5% for certain supplies of fuel and power
- Zero-rated: The four main areas of 0% goods are:
  - Food and agriculture (but excluding pet food and most catering)
  - Printed matter, including books and newspaper
  - Young children's clothing and footwear
  - Passenger transport (but excluding hire cars, taxis and parking)
- Exempt: Land (but not buildings), Insurance, Postal services, Betting, Gaming and Lotteries, Finance, Education, Health and Welfare
- Certain supplies of hospitality, holiday accommodation and admission to attractions are subject to a temporary 5% reduced rate of VAT due to COVID-19.

# What's the difference between input and output tax?

---

## Output VAT

Any VAT charged by the business, whether at 20% or 5%, is known as output VAT.

## Input VAT

Input VAT is the VAT that you are charged on your business purchases and expenses (the other person's output VAT) and is normally recoverable in full by a trader who only makes standard rated or zero-rated supplies.

The total input VAT suffered in the period is deducted from the output VAT charged or collected and the difference is either the amount of VAT due to HMRC or the amount repayable by HMRC.

The majority of input VAT is recoverable but there are special rules for:

- Cars
- Petrol supplied for private usage
- Business entertaining
- Goods sold under a VAT second-hand scheme

To reclaim VAT you have been charged as input VAT, you must hold valid evidence that you have received a taxable supply, which normally means a valid VAT invoice from a registered trader showing his VAT number and the amount of VAT charged.

Businesses that make some exempt supplies (known as partially exempt businesses) have different recovery rules as there is a further calculation needed.

## WHAT DOCUMENTS DO I NEED TO KEEP FOR VAT?



You need to keep records for at least 6 years, recording all your business transactions and keeping documents associated with them.

These might include statements, bills, receipts etc. They can be kept digitally, on paper, or a part of a bookkeeping software program.

The government is trying to make it easier for small businesses, but as a new start-up the rules and regulations can seem overwhelming.

You might want to call in the professionals at this stage.



### 3. Make sure you're covered

Having the proper insurance in place can be as important to the success of your business as a good product or service.

The type of insurance, and value of the coverage, will obviously vary depending on your business need.

You should be looking to insure against anything that would be a potential risk and which could have

a negative impact on your business: fire, theft, general and public liability, for instance.

It can be hard to know what insurance you might need when launching a business – some, such as employer's liability, are required by law, but there are plenty of other policies you might want to consider according to your need.

Having the right type of insurance in place will give you the confidence to create your dream business without the fear of potentially facing ruinous legal costs or replacing equipment damaged by a fire or flood.

Makes sense to us.

### Some of the insurance coverage you might want to consider...



**Public Liability** – will protect your business against any claims to a third party or damage to their property. It's not a legal requirement, but is considered essential and in some professions you might not be able to trade without it.



**Employers' Liability** – if you employ anyone outside your own family, you are required by law to have employer's liability insurance in place. This is in case one of your employees is injured or becomes ill as a result of the work they do for you.



**Product Liability** – in the event that you provide a defective product and someone suffers a loss as a result, they can look to you for compensation



**Professional Indemnity** – you need this to protect your business, but also some professional bodies and clients need you to have in place before they will work with you.



**Commercial Property Insurance** – helps to protect your business and its physical assets. It can pay your repair or replacement costs if your business property is damaged or destroyed from a fire, theft or other covered loss.



**Business Interruption** – if you had to shut down your business for reasons outside your control, this type of insurance aims to put your business back in the same trading position it was in before the event occurred.

## 4. Show me the money!

Finding the resources to fund and grow your new venture can be daunting, not to mention time consuming, but the good news is that when it comes to raising finance for your new venture, you have options.

More solutions are appearing which aim to help entrepreneurs solve the problem of accessing finance. After the financial crisis in 2008, the alternative finance market exploded, offering start-ups flexibility in the way they fund their businesses: peer to peer lending, crowdfunding and invoice finance options are available, as well as government grants and incentives.

If you're planning to start small and grow organically, keeping the business lean and using money from your day job or from friends and family (bootstrapping) to fund the new venture until you're ready to take the plunge is a safe way of getting started. It's also a good way of demonstrating to potential investors later down the line that you already have the discipline to run a revenue-generating business.

But if you need to start with cash in the bank, let's look at some of the options that are available.

Did you know?

Businesses are 4x more likely to get funding with guidance from an accountant!

## Debt vs Equity

### Equity

Equity deals can be complicated, involving raising capital through the sale of company shares – essentially you sell part of your ownership in the company in return for funding. Think Dragon's Den.

- **Crowdfunding** - this is a way of raising funds from many investors via platforms like Kickstarter, Seedrs, Crowdfunder etc
- **Venture capitalist** - VC funds are managed pools of funds that are invested in start-up and scaling businesses with high growth potential.
- **Family offices** - essentially 'old money', where the goal is a stable, long term investment with a tax-efficient return. There can be more flexibility than VC funds but finding family offices can be tricky, so best to start with an angel network or syndicate.

# Debt

It's drummed into us that debt is bad, but not all debt is bad (and we're accountants!) Borrowing to support growth is quite different from borrowing to spend. Used carefully, it IS possible to use debt to your advantage.

- **Bank loans** - depressingly, over half of all start-ups are rejected for bank loans. Whilst they might extend you an overdraft facility, banks want to see money coming in, sometimes several years' trading, before they will even consider lending.
- **P2P lenders** - these are some of the most active lenders in the SME market, offering secured and unsecured facilities for a wide range of amounts and different circumstances. Applying for funding via a P2P lender such as Funding Circle can be a fast and convenient alternative to traditional banks.

# Government

Don't forget there are grants and funding available from the government. Although the application process and requirements can sometimes be complex, the funding is there to cover a range of needs – from saving money on premises and rates, through to R&D or buying IT equipment.

- **R&D tax credits** - lots of businesses don't realise this could apply to them, but every business has an element of R&D – it could include software development work or process related improvements, for example. R&D tax credits are one of the more accessible incentives for small businesses, giving companies access to up to 33% of eligible R&D activities.
- **Innovation grants** – Innovate UK offer funding opportunities for organisations to test new ideas and develop innovative products and services that will support business growth.

Before you go looking for any type of funding, make sure you have a solid foundation for the business before you start.

The correct type of finance should support your growth aspirations and help you gain a competitive advantage as you begin your business journey.

Your accountant can help you understand what finance options are available and guide you towards the funding that will be most appropriate for your business.

## 5. Stand by me

Finding an accountant who can work with you right from the outset can help you navigate decisions, paperwork and regulation which might seem overwhelming on your own.

Starting your first business is a huge learning curve, so having a dedicated accountant you are in regular contact with can help you resolve any hiccups along the way.

It's more than just tax returns you know...

It's worth remembering that your accountant can do more than just handle your taxes and make sure your business is compliant. Any accountant worth their salt can add real value strategically, as they will have a thorough understanding of your vision and objectives.

Having the right accountant by your side as your business grows means you can look to them for more than to just keep things 'ticking over' – they should be able to provide you with information like industry insights or sector specific support that will help you make the decisions about the future growth of your company.

### More awesomeness your accountant can provide:



#### Help with systems & software

There are so many different accountancy software options available it can be difficult to know which is right for your business. An accountant will be able to recommend one to suit you and offer some tutorials and support in case you get in a muddle.



#### Managing cashflow

Poor cashflow management can make or break a small business. Late payments, poor supplier relationships and bad credit ratings are to be avoided at all costs.



#### Managing payroll

When the time comes to take on employees, keeping on top of procedures and legislation, not to mention making sure people get paid on time, is crucial. You can choose to use a payroll system, or you can outsource it to your lovely accountant.



#### Tax

It goes without saying, but why pay more than you need to? Your accountant is up to date on the latest legislation and will make sure you keep as much of your hard-earned cash as possible.

# Look after your baby

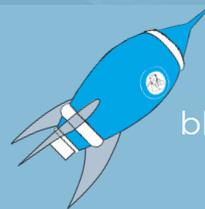
Running a business is a bit like parenting – nobody knows what they're doing to begin with, you just throw yourself into it and learn as you go along. It can be messy, it can be tiring, but the rewards are huge, so buckle up and enjoy the ride!

We can't give you any parenting tips (sorry), but if you need some friendly advice and practical support as you get started on your new business journey, email us at [happytohelp@bluerocketaccounting.com](mailto:happytohelp@bluerocketaccounting.com), or call us on 01322 555 442 for a chat.

## Resources we think you'll find useful (we're nice like that)

- Maximise business cash with an [EPIC invoicing process](#)
- [Cashflow forecast](#)
- [Tips, news and FAQs from the Blue Rocket team](#)
- Find funding to suit you - [compare business loans](#)
- [VAT registration](#)

**DON'T LEAVE US  
THIS WAY**



Daily tips and news  
[bluerocketaccounting.com](http://bluerocketaccounting.com)



Follow us on social  
[@bluerocketaccounting](https://www.instagram.com/bluerocketaccounting)



Sign up for our monthly newsletter, packed full of topical news and advice and delivered straight to your inbox.