DO YOU WANT TO...

BE YOUR OWN BOSS?
CHANGE YOUR LIFE?
STAY OUT OF PRISON?

BOOKLET TWO

Managing your money

Trading legally

HMRC requirements

Developed by

ENTREPRENEURS UNLOCKED CIC

Powered by

We are unstoppable. We are UnLtd

INTRODUCTION

This booklet is the second of a series of four that provides you with the insights into setting up and running your own business.

You will have already completed the first booklet, outlining your skills and business idea.

This second booklet will cover topics such as managing your money, trading legally, HMRC requirements and banking. Some of the tasks will need some time to get all the information, so don't rush them.

The third booklet will cover topics such as your product / service, pricing, why and how customers will buy and how to market and promote successfully.

The fourth booklet will cover topics such as banking and access to further help and support.

Take the time to read the information, try out the exercises and start to fill in your ready to trade checklist to give you the best chance possible of success on release.

PLEASE NOTE:

Entrepreneurs Unlocked does not give financial or legal advice. The content in this booklet is to make you aware of the topics you need to consider.

It is recommended to get up to date advice from the HMRC, an accountant of your choice or other professional services.

David Morgan
Founder and Director

WHAT DO I NEED TO EARN?

One of the key calculations you need to make is working out how much you need to live on. You can then see if your idea is going to make enough profit for you to draw an income.

This is known as your PERSONAL SURVIVAL BUDGET (PSB).

You can use the table below to work out what the MINIMUM you need to live on for your household. It should not include any business costs.

If your household has other income (a partner for example) then subtract that from the total to get your PSB.

An example is on this page for reference. Fill in yours on the following page.

Estimated weekly expenditure	£
Mortgage and/or rent	£150.00
Council tax	£40.00
Utilities (gas, electricity, water etc.)	£25.00
Personal and property insurance	£10.00
General housekeeping expenses (food etc.)	£60.00
Phone and internet / tv	£20.00
Car tax and insurance	£20.00
Car running expenses	£40.00
Savings plans & pension contributions	£25.00
Children's costs	£40.00
TOTAL	£430.00
Minus other household income	£150.00
WHAT YOU NEED TO DRAW FROM YOUR BUSINESS	**£280.00**

PERSONAL SURVIVAL BUDGET

Try to put down as many items as you can. Remember, be realistic.

Make sure you have the essentials as the nice to have's might take a bit longer to afford. Do your list first on a separate piece of paper.

Estimated weekly expenditure	£
TOTAL	
Other household income	
WHAT YOU NEED TO DRAW FROM YOUR BUSINESS	

MONEY TO START UP

As part of your planning and preparation, you will need to consider:

- **What money do I need to have to pay for the "stuff" to get my business started?**
- **Where will the money come from?**

The "stuff" can be physical such as tools / equipment, leaflets, phone, laptops, stock to sell. It can include other things such as insurances, licences, rental agreements.

Try and make a list of what you think you need on a separate piece of paper as this might take a few attempts. You can put down your final draft in the table on the next page once you are happy.

It might not be possible to get accurate prices at the moment, but if you know what you might need you can start to ask family, friends or others to get you some information to help build up a picture.

Once you have an idea of the cost of what you need, the important question is:

- **Where will the money come from to get up and running?**

Start to fill in the table below to build up a picture of where you could get your money from. As you progress your idea and connect with other people you can add to it. You might have to balance what you can afford with the essentials to be able to start earning.

Source of funding	Possible amount
TOTAL	

MONEY TO START UP

YOUR LIST

Description	Estimated Cost
TOTAL	

MONEY TO KEEP TRADING

As part of the financial planning process you will need to consider the day to day running costs of the business.

Below are the different types of costs you need to consider:

Fixed Costs

These are costs that are always there, no matter how many items you sell, how many customers you have or even if you do not generate any income.

Examples include:

- Insurances
- Office rental
- Website costs
- Phone
- Internet access
- Loan repayments
- Salary

Variable Costs

This is when what you spend varies depending on how much of your product / service you sell.

- Materials
- Delivery costs
- Petrol
- Office supplies
- Temporary labour

Make your own list in the table overleaf of all the costs you can think of that you might need to cover. You might want to do this first on a separate piece of paper beforehand.

MONEY TO KEEP TRADING

RUNNING COSTS

Try to work out how much the item might cost and how often you would pay e.g. Petrol (Weekly), Internet (Monthly), Insurances (Yearly)

Description	Estimated Cost	How often
TOTAL		

KEEPING TRACK OF YOUR MONEY

When you run your business you will be spending money on many things. It is important to record what you are spending and when you spend it for a number of reasons:

- You can see if you are spending more or less than you are earning
- You can see where to make savings if needed
- Most spending is considered a taxable expense which the HMRC allow you to offset against your income to reduce the amount of tax you might have to pay.

Make sure you keep all your receipts for purchases such as:

- Office costs
- Travel costs
- Clothing expenses
- Staff costs
- Things you buy and sell on e.g. stock / raw materials
- Financial costs e.g. insurances / bank charges
- Cost of your business premises
- Advertising and marketing
- Training costs

A detailed guide can be found at:

www.gov.uk/expenses-if-youre-self-employed

There are potentially many ways that you can keep track of your income and expenditure. You could consider the following:

Manual – You could have 2 notebooks. One records all your income on a weekly / monthly basis and the other records everything you have spent.

At the end of each period you can check to see if have been able to earn more than you have spent.

Remember – keep all your receipts! You could simply put them in envelopes for each week / month.

If you use an accountant then this is far better and less costly than handing over a carrier bag with everything in a muddle when they are working out your year-end accounts.

KEEPING TRACK OF YOUR MONEY

Semi-automatic

If you are good at using spreadsheet software, you could set up a simple income and expenditure system that calculates everything for you. You can then add to this some calculations if you wish to work out any tax / national insurance due.

PC / Phone software

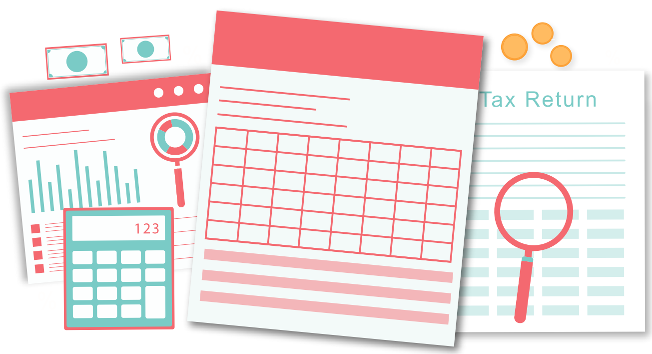
For a monthly fee, you can purchase software that allows you to track your income and expenditure. You can raise invoices for your goods / services and link to your bank account to show all your spending and track how your business is doing.

There are a number of providers, and you should make sure that they are compliant with the HMRC for making tax digital. A guide can be found at:

www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax

Online banking

Most banks offer an online service. You can set this up on a laptop or a mobile phone and it provides you with an up to date balance and you can see what your income and expenditure has been. Some provide the ability to categorise your types of expenditure e.g. travel, materials, food / drink).



SOLE TRADER

One of the decisions you need to make is how you will structure your business and register it with HMRC. A Sole Trader is the most popular form.

As defined by the HMRC

"You run your own business as an individual and are self-employed. You can keep all your business's profits after you've paid tax on them. You're personally responsible for any losses your business makes."

Being a Sole Trader doesn't mean you can't employ others.

However, 95% of those who are self-employed do not employ anyone else, trading as a sole proprietorship or a one-person company.

Points to consider

You can keep simple un-audited accounts that are not required to be published. Only yourself, your accountant (if you have one) and the HMRC will know what you have earned.

Setting up is relatively simple. Most people register online themselves and the process only takes around 30 minutes. This is a FREE service.

- **You get to make all the decisions, so take full responsibility for your business.**
- **You get to decide how any profits are used.**
- **However you need to be aware that:**
- **You could incur costs if you don't keep accurate records and fail to submit your tax return on time.**
- **As YOU ARE THE BUSINESS, you are liable for any debts, and would have to settle any outstanding claims.**
- **Your personal assets could be at risk in relation to any claims of money owed to you by others.**

Detailed advice and guidance can be found on the government website:

www.gov.uk/set-up-sole-trader

HOW TO REGISTER

You'll need to register for Self Assessment and Class 2 National Insurance as soon as you can after starting your business. You need to do this even if you've completed tax returns before.

You can't register more than 28 days before you start but should aim to do so as soon as you start earning an income to keep everything in order.

You can register online and you will:

- **Get a letter with your 10-digit Unique Taxpayer Reference (UTR) within 10 working days (21 days if you're abroad)**
- **Be enrolled for the Self Assessment online service at the same time**

You'll also get a letter within 10 working days (21 days if you're abroad) with an activation code.

You'll need this when you first log in to your online account.

To set up your government gateway account and self assessment you need to make sure you have the following details:

- **National Insurance Number**
- **Address to register from**
- **Daytime contact number**
- **E-mail address**
- **Date you started trading (or intend to)**
- **Business name (or trading name)**

SELF ASSESSMENT TIMESCALES

Self assessment forms get filled in after the end of the tax year it applies to.

e.g. For the tax year 6th April 2020 to April 5th 2021

Deadlines

Register for self assessment:	5th October 2021
Paper tax returns:	31st October 2021
Online tax returns:	31st January 2022
Pay any tax due:	31st January 2022

e.g. For the tax year 6th April 2021 to April 5th 2022

Deadlines

Register for self assessment:	5th October 2022
Paper tax returns:	31st October 2022
Online tax returns:	31st January 2023
Pay any tax due:	31st January 2023

WHAT DO YOU NEED TO KNOW?

Penalties

£100 fine if your tax return is up to 3 months late

Additional penalties will apply after that (up to £10 a day for 90 days) plus interest after that.

CALCULATING TAX AND NATIONAL INSURANCE

When calculating if you need to pay income tax for each trading year, you will more than likely have a personal allowance which is the amount you can earn tax-free each year.

Standard Personal Allowance (PA) for 2021-22 =
£12,570
(This may be lower dependant on your personal circumstances)

Therefore, you are taxed as below:

0% on annual profits up to your PA
20% on annual profits above the PA and up to £37,700
40% on annual profits between £37,701 and £150,000
45% on any additional profit over £150,000

Class 4 National Insurance Contributions:

0% on annual profits ups to £9,568
9% on annual profits between £9,569 and £50,270
2% on any additional profit over £50,271

Class 2 National Insurance Contributions:

£3.05 per week
This is a voluntary contribution if your profits are less than £6,515 per annum.
If your profits are over £6,515 then you pay a flat rate of £3.05 per week.

The HMRC recommends paying Class 2 as gaps in your national insurance contributions can result in not being able to access the full state pension on your retirement.

NOTE: The personal tax allowance will remain the same until April 2026 as announced in the March 2021 budget.

HOW TO PAY YOURSELF

SOLE TRADER

Based on your previous calculations from your Personal Survival Budget you will have a figure in mind as to what you need to draw from your business in order to cover your living expenses.

It is recommended to keep a record of the amount you took and on which date.

You can withdraw the money at any time that suits your needs.

Any money you take is not considered a business expense and therefore would be subject to the rules on taxation on the previous page.

Worked Example:- Over the course of the tax year (6th April – 5th April)

Income from trading	£30,000
Business expenses	£10,000
Personal drawings	£15,000
Surplus of	£5,000
Personal Allowance *(Money you can earn tax free per year)*	£12,570

You need to add together your personal drawing and surplus giving a total of **£20,000**.

After subtracting your personal allowance this gives a taxable income of **£7,430**.

You therefore need to pay income tax of **£7,430 x 20% = £1,486**

Don't forget you need to pay national insurance too!

HOW TO PAY ANY TAX DUE

SOLE TRADER

You will see from the previous page the deadlines and details for self-assessment.

A common phrase you might hear is "You don't pay any tax on your first year of earnings" which is partly correct.

In effect, if you (your business) has generated enough profit to go over the thresholds on the previous page, then tax and national insurance will be due. It's just that due to the timings of the dates you could earn money in May 2020 but not actually have to pay what you owe until January 2022.

As part of your financial planning, you need to consider:

- **If you want to pay into your HMRC tax account on a regular basis (say monthly) to build up a fund that you can use when your tax bill is due**
- **Work out your profits at the end of the tax year and then find the money to pay your tax bill all in one go.**

Just remember that not settling your tax bill by the deadline of 31st January means you might need to pay a fine as well – Why would you want to give the HMRC more of your money just because you could not get organised.

To support you with you financial planning and taxation, you may want to consider using an accountant to ensure you comply with the regulations, keep your good relationship with the HMRC and hopefully minimise your tax liability.

PARTNERSHIP

You could consider setting up a partnership with one or more other people. In fact a partner can be another legal entity e.g. a limited company.

An example could be where two people each don't feel they have individually the skills and experience needed to run a business, but between them they do.

You and your partner(s) share the responsibility for the business. This means that you all share in the business's profits as well as any losses it makes. Everyone also contributes to pay for things that you buy such as materials, equipment or marketing expenses.

Each partner will be liable to pay any tax due on their share.

Points to consider

- **Choose a name. You do not need to register your business name, and you can trade under your own names. You must include all the partners' names and the business name (if you have one) on official paperwork such as invoices and letters.**
- **Choose a nominated partner (they are the person responsible for keeping the business records and managing tax returns)**
- **Make sure each of the partners is registered with the HMRC as they need to send their own tax returns as individuals.**
- **Register the partnership with the HMRC by the 5th October in your business's second year to avoid a possible penalty charge.**

Detailed advice and guidance can be found on the government website:

www.gov.uk/set-up-business-partnership

NOTE: There are other types of partnerships with different rules such as limited partnerships and limited liability partnerships.

LIMITED COMPANY

Another option to consider is setting up a limited company. There are several steps involved in this process which include:

1. **Deciding on the type of limited company you want to have (limited by shares of guarantee)**
2. **Decide on a company name – there are rules around this such as being unique or too alike to another, not being offensive**
3. **Choose Company Directors (and possibly a Company Secretary)**
4. **Who are the shareholders or guarantors**
5. **Who holds significant control**
6. **Prepare documents on how to run your company including:**
   Articles of Association
7. **Memorandum of Understanding:**
   Ensure you know the types of records you need to keep
8. **Register with Companies House:**
   £12 Online £40 Postal
9. **Register with the HMRC for Corporation Tax**

Points to consider

- The business is a separate legal entity and you become a Director.
- Business finances are separate from your own finances.
- The business will need a separate bank account.
- As a Director, you are an employee of your own company and can employ others.
- You must complete a self assessment tax return with the HMRC for each financial year.
- The business pays Corporation Tax on any profits (currently 19%).
- The business is liable for any losses.
- You have to file annual reports with Companies House.

Detailed advice and guidance can be found on the government website: *www.gov.uk/set-up-limited-company*

NOTES

After reading the previous sections, you need to be thinking about making some decisions for the future. At this stage, what are your thoughts on:

The type of legal structure for you / your business:

Reasons for choosing this:

Who can help you in finding out about costs?

Who can help you finding out about funding?

What method would you want to use to record your income and costs?

How do you intend to register with the HMRC (online or paper)?

Will you need help, and if so do you know who to talk to?

NEXT STEPS

ENTREPRENEURS UNLOCKED CIC

By reaching the end of this booklet, you have completed another stage in your journey to being self-employed.

There is no need to return the booklet, just keep it safe with the others for future reference.

You can return it if you wish, it will be reviewed and sent back.

To receive the next booklet, please take the time to complete the feedback form that you received with this booklet and send it back to me in the freepost envelope provided.

Make sure you have completed your details so I know where to send the next booklet to!

I look forward to reading your feedback and continuing to learn more about you and your idea.

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