

2013

Outdoor Fitness Business Start-up Considerations



Boot Camp & Military Fitness
Institute
10/1/2013

OUTDOOR FITNESS BUSINESS START-UP CONSIDERATIONS

CONTENTS

	Page
1.0 Introduction	2
2.0 Trading Vehicle	2
2.1 Sole Trader	2
2.2 Partnership	3
2.3 The Limited Company	5
2.4 Use of Home for Business Purposes	6
3.0 Naming your Business	7
3.1 Business Name	7
3.2 Trading Disclosures	7
4.0 Banking	8
5.0 Finance	8
5.1 Banks	9
5.2 Government Finance	9
6.0 Location, Location, Location	10
7.0 Employment Models	10
8.0 Branding and Online Presence	11
8.1 Branding	11
8.2 Online Presence	11
9.0 Pricing and Product Strategy	12
9.1 Product Strategy	12
9.2 Pricing Strategy	13
10.0 Transport, Clothing and Misc Factors	14
11.0 References	15
12.0 Further Reading and Legislation	15
12.1 Further Reading	15
12.2 Legislation	15
13.0 Appendices	16
Appendix A: Tax and Legal Differences	16

1.0 Introduction

In very simple terms, there are five things needed to start trading as a business:

1. Form a limited company or start as a sole trader;
2. Inform HMRC (Her Majesty's Revenue and Customs);
3. Obtain a bank account in the name of the limited company or sole trader;
4. Find a chartered (tax) accountant; and
5. Fund the bank account.

However, after reading this article you will come to realise that there is slightly more to it than that! And, although this article is fairly comprehensive it is not intended to be exhaustive.

Further, this article is not intended to tell you what to do, merely provide you with a starting point and guidance on areas to consider when thinking of starting your own business.

2.0 Trading Vehicle

When you start a business you must operate through a trading structure or 'vehicle' and there are three types of structure commonly used in the UK:

1. The sole trader;
2. The partnership; or
3. The company.

Different vehicles can also combine to operate together as Joint Ventures, or as partnerships.

There are many distinct legal and tax differences between a sole trader and a limited company, as highlighted in Appendix A, which the reader should be aware of.

2.1 The Sole Trader

A sole trader consists of one person, who is in business on his own account. He is referred to as being self-employed. The key features are:

- The business and its owner form one legal entity.
- Can use own name or choose a suitable business name. All transactions would be conducted under the actual name of the sole trader or the actual name trading as the business name. The sole trader own name should be used on all business stationery, letters, invoices, receipts and cheques.
- This is a very flexible way to trade, and there are more sole traders than any other business structure in the UK.
- The sole trader is personally liable for all the debts of the business; if the business fails, he may go bankrupt (no distinction between business and personal assets).
- All the profits of the business are taxed as if the personal income of the sole trader.
- The sole trader may employ staff, but he is not an employee.
- A sole trader cannot rent his own property to his business as he and the business are one and the same (he cannot charge himself rent).

2.1.1 Points to Note

- When trading starts, which would be the date of the first sale or purchase, the sole trader has a responsibility to register as self employed with HMRC. If self employment is not registered within 3 months of trading commencing the sole trader may be fined £100 for failing to register on-time. Following registration HMRC will send an annual self employed tax return which has to be completed each financial year. It is usually advisable to adopt 05 April as the year end date and so the first year would be less than 12 months trading.
- There is no requirement to register the business or business name with Companies House which is solely for limited companies.
- When commencing business as a sole trader consideration should be given to insurance requirements. Employers liability insurance will be required if employees are employed, insurance specific to the trade may be advisable to offer protection from claims, public liability insurance may be required.
- While a sole trader does not have to keep formal accounts financial records are required to enable the net taxable profit to be calculated with paperwork to support that calculation. Documentary evidence includes paperwork obtained from third parties such as sales records and receipts, purchase invoices and receipts and if maintained the business bank account.
- It is preferable to maintain regular accounts as part of the financial control bearing in mind that all debts of the business are personal to the trader. By preparing monthly accounts cash flow can be managed more effectively and an estimate of future tax liability made.
- The status of a sole trader is not affected if employees are engaged as the sole trader is still self employed. If employees are engaged then the sole trader needs to register with HMRC as an employer and operate a PAYE scheme which involves calculating and deducting income tax and national insurance from employees gross pay, incurring the employers national insurance contribution, issuing payslips and keeping records of all employees and deductions. Income tax, employees and employers national insurance can be paid to HMRC quarterly if under £1500 per quarter or monthly if exceeding this level.

2.2 Partnership

A partnership is defined as two or more persons carrying on in business with a view to profit. There are three forms of partnership and they are each governed by different partnership acts. These create 'defaults' as to the way that this form of vehicle is regarded in law.

Partnerships are relationships and all human relationships may go wrong. It is important to create a partnership agreement to determine (the following list is an absolute minimum):

- Profit share;
- Capital contributions;
- How to deal with the arrival and departure of a partner;
- Succession;
- Death of a partner; and
- Divorce of a partner (essential if you are income shifting).

2.2.1 Types of Partnership

There are three different types of partnership:

1. The conventional partnership;
2. The limited liability partnership (LLP); and
3. The limited partnership.

2.2.2 The Conventional Partnership

Many of the key features are similar to those for a sole trader:

- Partners are responsible for one and another's debts.
- Partners are taxed on all the profits, although their share of the profits will vary by agreement.

However, there are some significant differences:

- If the partnership makes a loss, those partners who are not fully participating in the business may be restricted from claiming sideways loss relief (offsetting losses against other income).
- Individual partners may rent property to the partnership to use in its business, and charge it rent.

2.2.3 The Limited Liability Partnership (LLP)

This trading vehicle is a sort of cross between a conventional partnership and a company; it has the best features of each. LLPs are governed by the 2000 Limited Liability Partnership Act and the 2006 Companies Act. Key features are:

- A LLP is a body corporate: a separate legal entity to its members (the partners).
- LLPs have designated partners who are the equivalent to company officers.
- LLP accounts are filed with Companies House.
- Partners have limited liability unless:
 - The LLP becomes insolvent, and the partners knowingly allowed this to happen, in which case they may be required to repay their profits of the previous two years.
 - A partner is found to be at fault at a time when he was acting under his own personal capacity.
- A LLP is taxed transparently, as if it were a conventional partnership, rather than a company.
- Losses are restricted in proportion to each partner's capital contribution.
- LLPs are subject to substantial amount of tax anti-avoidance legislation.

2.2.4 The Limited Partnership

This type of partnership is governed by the 1907 Limited Partnership Act. It is not to be confused with a limited liability partnership (LLP).

Limited partnerships are popular when you are structuring a private equity and investment fund, but they are not so practical if you are looking for a flexible trading vehicle in general terms as you would use a conventional partnership or LLP.

A limited partnership is not required to file its accounts with Companies House, and so this type of partnership is popular for family estate planning and wealth management. Key features are:

- At least one partner must have unlimited liability, he is referred to as a “general partner”.
- Limited partners’ liability is capped, in the event of business failure (unless there was fraud or something similar) they will only lose the capital contribution that they may have made to join the partnership.
- The common set-up is that the limited partner will provide initial funding. It is not permitted to participate in management or bind the partnership.
- A limited partnership’s entitlement to losses is restricted pro-rata to its capital contribution.

2.3 The Limited Company

There are two main forms of company:

- Private (discussed below); and
- Public (not discussed).

A private company can be unlimited or limited by shares or guarantee. Unlimited companies and companies that are limited by the guarantee of their members tend to be used for activities which have little or no commercial risk. Typically they are non-profit making or charitable companies.

2.3.1 Company Limited by Shares

Key features are:

- A company is a separate legal entity to its owners (shareholders) and its directors (the management).
- A company limited by shares has an authorised share capital, and shareholders invest in the company and own its shares.
- A company is taxed on its profits. However, its owners are only taxed when the company distributes its profits to them or pays them remuneration or benefits.
- The company is run and managed by its board of directors.
- A company secretary is required to maintain the company's statutory records.
- A company may be a ‘single member’ company; that is it is owned by one individual who is also its director and secretary.

- In the event of a company's insolvency, the shareholders will generally find that their shares are worthless, i.e. they lose the capital that they have invested in them. If any amount of share capital is unpaid, the shareholders will have to settle this.
- In the event of a company's insolvency, its directors may have to account to creditors if it is proved that the creditors have suffered a financial loss as a result of the actions of the directors.

As shareholders and office holders may fall out, it is essential to draw up:

- A shareholder's agreement; and
- A director's service contract.

2.4 Use of Home for Business Purposes

There are different rules in claiming tax relief on use of home. Different rules apply depending on whether you are an employee or self-employed when claiming tax relief against income or profits for the costs of using your home for business purposes (Table 1).

Table 1: Rules regarding tax relief using home for business purposes

Rules	Sole Trader	Employee
General rule	<ul style="list-style-type: none"> • May claim all business expenses or if an expense is part-business/part-private may claim an identifiable proportion of that expense. 	<ul style="list-style-type: none"> • May only claim expenses if incurred wholly, necessarily and exclusively in performance of employment duties. This excludes expenses which are part-business/part-private. • Where home working is undertaken by personal preference no claim is possible.
What type of expenses	<ul style="list-style-type: none"> • Light and heat, mortgage interest, council tax, insurance, utilities, broadband, telephone and other running costs. 	<ul style="list-style-type: none"> • Claims limited to metered use of light and heat and itemised telephone calls. Claims for other costs may be possible depending on the nature of the employment.
Instead of claiming actual expenses are there any HMRC approved allowances?	<ul style="list-style-type: none"> • £4 per week (by concession up to 2012/13) Fixed rate allowance by hours (from 2013/14) 	<ul style="list-style-type: none"> • £4 per week.

2.4.1 Top Tips and Pitfalls

- If an employer reimburses an employee's expenses under a home-working agreement there will be no tax liability for the employee provided that the expenses qualify for relief under the general rule. This strategy is more beneficial for the employee because the employer bears all the costs.
- A company director of an incorporated business may enter into a licence agreement with the company for non-exclusive use of an office in the director's house. This rental income can then be set against a proportion of the household expenses on the director's personal tax return.
- Any use of home for business purposes may be contrary to a mortgage agreement. The local authority may also consider charging business rates, although currently small business rate relief applies. Where business rates are charged, council tax is discounted proportionately.
- There will be Capital Gains Tax issues to consider where any part of a home is used exclusively for business.
- You may not claim rent a room relief where a room is rented to a business.

3.0 Naming your Business

3.1 Business Name

A 'business name' is any name under which someone carries on business other than their own. In the case of a company or limited liability partnership, it means a name that is not its registered name (e.g. Military Fitness Limited). In the case of a sole trader, it means a name other than a surname with or without forenames or initials. In the case of a partnership, it means a name other than the partners' names.

A practical example is Military Fitness Limited (*registered name*) trading as British Military Fitness (*business name*).

3.2 Trading Disclosures

Regulations made under the Companies Act 2006 require a company to display its name at its registered office and other places of business, on business documents and on websites. The purpose of the regulations is that the legal identity of every company should be revealed to anyone who have, or may wish to have, dealings with it.

Every company, unless it has at all times been dormant since incorporation, must display a sign with its registered name at:

- Its registered office;
- Any inspection place;
- At any location at which it carries on business (unless it is primarily used for living accommodation); and
- It must also include its registered name in all business communications (hard copy and electronic).

Further, every company must disclose its registered name on its websites and must also display the following on all its business letters, order forms and websites:

- The part of the United Kingdom in which the company is registered (i.e. England and Wales, or Wales, or Scotland, or Northern Ireland);
- The company's registered number; and
- The address of the company's registered office

4.0 Banking

A sole trader can use a personal or current account for business purposes. In contrast other forms of business require a formal business account. Although sole traders are not required to open a business account, it may be appropriate to open a separate personal for convenience (for bookkeeping and end-of-year purposes it is easier to manage). Business accounts, typically, incur monthly and ad-hoc charges, whereas personal accounts may not.

The major banks and building societies will not, typically, allow start-up businesses to utilise the direct debit scheme. As such, outdoor fitness companies will have to utilise other payment collection methods such as PayPal or Standing Orders (SO). SOs rely on the customer to set them up and pitfalls to be wary of include:

- Clients attending classes, for example, on the 01 of the month but not starting the SO till later in the month;
- Clients cancelling their SO but still attending classes; and
- Banks/building societies do not have the same obligations as with the Direct Debit scheme.

5.0 Finance

Businesses borrow money in order to purchase the business, purchase fixed assets and finance day-to-day trading. There are a number of sources of finance open to businesses as highlighted in Table 2.

Table 2: Sources of finance for businesses

Source of Finance		Business Type	
		Sole Trader	Limited Company
Internal	Savings	X	X
	Help from Family	X	
	Business Profits	X	
	Private Shareholder's Funds		X
	Business Profits		X
External	Bank Overdraft	X	X
	Loans	X	X
	Hire Purchase	X	X
	Leasing	X	X
	Grants	X	X
	Factoring		X
	Venture Capital Firms		X

5.1 Banks

Banks normally apply some well-tested principles when considering a loan for a new business, as shown below:

- Character;
- Ability to make interest payments;
- Margin of profit on loan;
- Purpose of loan;
- Amount of loan; and
- Security for loan.

5.2 Government Finance

Government finance or enterprise initiative packages are normally negotiated for investment projects undertaken by firms in 'assisted areas'. As such, projects must be:

- Commercially viable;
- Create/safeguard employment;
- Show a need for assistance; and
- Offer a national/regional benefit.

An example of this is the 'Be the Boss' Funding Scheme funded by a Treasury grant from the UK Department of Business, Innovation and Skills, and delivered by the Royal British Legion (Civvy Street Partnership, 2013).

6.0 Location, Location, Location

Table 3 highlights a number of considerations regarding location.

Table 3: Factors to consider regarding expanding/opening new venues

Factor	Issue(s)
Capacity	<ul style="list-style-type: none"> • Maximum physical number of members that can train safely in the given area; • Parking capacity • Open/closed field space
License conditions/restrictions	<ul style="list-style-type: none"> • Maximum number of members imposed by the Local Authority/land owner • Licence fees • Marketing rights (some Local Authorities will advertise on their websites, some will not) • Marketing rights (can you post leaflets etc)
Recruitment	<ul style="list-style-type: none"> • Lead instructors/managers • Instructors
Employment model	<ul style="list-style-type: none"> • Permanent or part-time employee • Profit share 'associate' • Casual worker • Self-employed • Salaried • Commission/bonus incentives
General location considerations	<ul style="list-style-type: none"> • Urban (inner city), urban (suburbs) or rural • For example, low residential area and therefore not enough potential members to be economically viable • Indoor/outdoor environment
Boundaries	<ul style="list-style-type: none"> • Geographic distance (from home to venue and work to venue) • Member travel time
Lighting	<ul style="list-style-type: none"> • Natural • Artificial
Marketing and advertising strategy	<ul style="list-style-type: none"> • Is there a strategy in place
Market saturation	<ul style="list-style-type: none"> • I.e. too many competitors already in-situ
Market research	<ul style="list-style-type: none"> • Is there a demand for the product(s)/service(s) you wish to sell?
Competitors	<ul style="list-style-type: none"> • Activity (e.g. same location or nearby location) • Product and/or service innovations • Pricing, marketing and advertising strategies • Established companies already in the area • Established companies expanding into the area • Other start-up companies

7.0 Employment Models

A majority of companies take on staff on a casual or self-employed basis. Both of these models have a number of advantages for the employing organisation such as no continuity of employment, no pension contributions, and a ready pool of available talent at short notice.

However, there are a number of other factors to contemplate when taking on employees (or workers), and an in-depth analysis of employment models can be found at: <http://bootcampmilitaryfitnessinstitute.wordpress.com/human-resources/employment-considerations-models/>.

For you, the employer, it is important to choose the appropriate type of arrangement for your business needs and to be aware of the implications for workers rights, even when workers are non-employees!

8.0 Branding and Online Presence

Some sort of branding and an online presence for companies is ubiquitous. It is important for companies that their branding is consistent across the range of products/services, publications and websites.

8.1 Branding

“Your company branding is what makes your business unique. It’s your business’s personality and should convey what makes it special. Even in today’s world where competition is so tough, branding can help set your business apart from your competitors.” (Evoluted, 2013).

Brand is the name, term, design, symbol, or any other feature that identifies one seller's product distinct from those of other sellers. Brand valuation is an important management technique that ascribes a money value to a brand, and allows marketing investment to be managed to maximize shareholder value.

Although only acquired brands appear on a company's balance sheet, the notion of putting a value on a brand forces managers to be focused on long term stewardship of the brand and managing for value. Appropriate, or well-considered, branding can result in higher sales of not only one product, but on other products associated with that brand.

Although most companies use branding to differentiate themselves from the competition, some utilise branding in a chameleon-like guise to appear similar to established actors in the market. For example, British Military Fitness and Scottish Military Fitness could, at first glance, be construed as elements of the same organisation. However, they are two distinctly separate companies but the confusion in potential customers was enough to allow one to expand its market share at the expense of the other. Branding can be a boon and a bane.

8.2 Online Presence

In business terms the use of online media, notwithstanding corporate websites, as a sales tool took a while to occur. However, companies are now starting to realise the potential of social media as a true business platform. In this respect fitness companies are no different.

8.2.1 Website and Social Media

A website is a must for any company, as it is a means of informing current and potential customers of products/services, business changes, advice and guidance, feedback and a plethora of other things.

The website does not necessarily need to be an awarding winning design but it must be practical and functional, i.e. be pleasing to the eye and easy to navigate. However, when developing a website there must be consideration for cost and whether off-the-shelf would be better value than bespoke. Also, for many fitness companies the website is merely a gateway to social media, which typically acts as the primary mode of communications.

Examples of social media include:

- Facebook (social networking site)
- Twitter (microblog)
- Google+ (social networking site)
- Tumblr (microblog)
- Wordpress (blog)
- YouTube (content community)
- LinkedIn (social networking site)

It is important that business owners understand the benefits and risks of social media, and further information can be found at:

- <http://bootcampmilitaryfitnessinstitute.wordpress.com/adv-disadv-must-haves-red-flags/social-media-policy-guidelines/>
- <http://bootcampmilitaryfitnessinstitute.wordpress.com/adv-disadv-must-haves-red-flags/social-media-dos-donts/>

8.2.2 The Social Login

In the last few years, many organisations have realised that social media is more than just the latest fad in communicating to the under-30 demographic, and is instead a generator of real value for their businesses.

However, few organisations are aware of the value of a new technology called 'social login' which allows visitors to a website to log in using their Facebook, Google, Twitter, or other social media account rather than having to register a new one. In fact, social login can be a huge marketing 'force multiplier' in every commercial organisations two core tasks: acquiring customers, and selling customers products and services (Drebes, 2011).

9.0 Pricing and Product Strategy

9.1 Product Strategy

With regards to products/services, what are you going to deliver? What is your core business activity (what the company will be known for?) For example:

- Week-long residential boot camps (typically Monday to Friday);
- Weekend residential boot camps (typically Friday evening to Sunday afternoon);
- Weekend non-residential boot camps (typically all-day Sunday);
- Continuous sessions (i.e. evening and weekend daytime sessions on rolling basis)

9.1.1 Complimentary Business Activities

Complimentary business activities, or product diversification, are a well known concept utilised by many organisations to ameliorate the effects of, for example, seasonal sales, downturns and product maturity. Examples of product diversification include:

- Indoor circuits;
- Corporate events and teambuilding exercises;
- Birthday parties;
- Personal training;
- Nutrition and weight loss programmes;
- Assault/obstacle courses;
- Outdoor events and challenges (e.g. toughmudder); and/or
- Personal development days.

9.2 Pricing Strategy

Empirical evidence demonstrates that consumers, with regards to the fitness industry, are price sensitive. This was amply demonstrated by Scottish Military Fitness (SMF) during 2011 when they utilised online promotional discounters (OPDs such as ItIsOn.com), during a time of economic downturn, pulling consumers towards their product. In contrast, their main rival in Glasgow, British Military Fitness (BMF), decided against this strategy and subsequently lost market share to SMF. However, this phenomenon is not unique to Glasgow and organisations UK-wide have utilised this marketing channel in order to maintain or increase their market share at the expense of their competitors.

The fitness industry in general, and specifically the outdoor fitness market, is highly competitive and over the last decade the traditional training and facilities providers have had to reduce their prices in order to successfully compete with the newer and cheaper entrants to the market. Empirical research also demonstrates that where there is direct competition prices are reduced and where this no direct competition higher prices can be charged (elementary economics). However, price is merely one component - even if currently very important in consumers' minds - and if an organisation does not communicate with consumers about its products/services in an appropriate manner then market share will collapse and revenues fall.

Therefore questions to ask include:

- Competitors: what are their pricing structures and product offerings?
- OPDs: what are your competitors doing?
- Tiered pricing structure (based on level of membership)?
- Payment method (pay-as-you-go, monthly fee)?

10.0 Transport, Clothing and Misc Factors

10.1 Transport

- Buy or hire purchase (HP) a vehicle, or use own car;
- If buy or HP, do you require a car, van etc;
- Outfitting the vehicle, i.e. storage for equipment;
- Company branding on the vehicle, including:
 - Telephone (land-line and mobile)
 - Corporate website(s)
 - Social media site(s)
 - Services offered

10.2 Clothing and Equipment

- Clothing for instructors. For example: t-shirts (long & short sleeve); sweatshirts; jackets; and/or hats.
- Clothing/equipment for clients, i.e. for them to buy. For example:
 - T-shirts (long & short sleeve)
 - Sweatshirts and hoodies
 - Polo shirts
 - Hats, scarf's and gloves
 - Car seat covers
 - Towels
 - Mugs, cups and glassware
- Freebies. For example: car stickers and posters (for workplaces). If you can afford it, it is a good idea to offer these as part of a welcome pack for new clients and on a continual basis for current clients.

10.3 Misc Factors

I think it can be safely assumed that we all understand the importance of hydration with regards to exercise. Points to consider include:

- Are instructors required to purchase water or will the company purchase on their behalf?
- Type of bottle to be used. Squeezy bottles are the norm to reduce the risk of cross-contamination.

11.0 References

Civvy Street Partnership (2013) *Be the Boss*. Available from World Wide Web: <https://www.civvystreet.org/tabid/5880/default.aspx>. [Accessed: 01 October, 2013].

Evolved (2013) *Company Branding*. Available from World Wide Web: <http://www.evolved.net/graphic-design/company-branding>. [Accessed: 01 October, 2013].

Drebes, L. (2011) *Social Login Offers New ROI From Social Media*. Available from World Wide Web: http://blogs.hbr.org/cs/2011/10/social_login_offers_new_roi_fr.html [Accessed: 16 September, 2012].

12.0 Further Reading and Legislation

12.1 Further Reading

<http://www.companieshouse.gov.uk/index.shtml>

<http://www.hmrc.gov.uk/>

12.2 Legislation

The Company and Business Names (Miscellaneous Provisions) Regulations 2009 (SI2009/1085)

The Companies Act 2006

The Company, Limited Liability Partnership and Business Names (Sensitive Words and Expressions) Regulations 2009 (SI No. 2615)

The Company, Limited Liability Partnership and Business Names (Public Authorities) Regulations 2009 (SI No. 2982)

The Companies (Trading Disclosures) Regulations (Statutory Instrument 2008/495)

The Companies (Trading Disclosures) (Amendment) Regulations 2009 (SI No. 218)

13.0 Appendices

Appendix A

TAX AND LEGAL DIFFERENCES

Issue	Sole Trader or Partnership	Limited Company (You are Director & Shareholder)
Legal Status	<ul style="list-style-type: none"> You are the business. 	<ul style="list-style-type: none"> The business is a separate legal entity.
Owner(s)	<ul style="list-style-type: none"> You are the owner. 	<ul style="list-style-type: none"> You are a shareholder; you hold all or a proportion of the company's share capital.
Job Role	<ul style="list-style-type: none"> You are the manager or proprietor. 	<ul style="list-style-type: none"> You serve the company as its officer & as a director. A company secretary is an officer too.
Employment Status	<ul style="list-style-type: none"> You are self-employed; you cannot be your own employee. From April 2014 the members of a Limited Liability Partnership who are on fixed profit/no risk arrangements may be automatically classed as employees under proposed anti-avoidance provisions. 	<ul style="list-style-type: none"> A director is an office holder; this does not automatically make him an employee in terms of employment law, the National Minimum Wage or for Tax Credits. For Income Tax and National Insurance purposes company officers are treated as employees.
Tax on Profits	<ul style="list-style-type: none"> You pay Class 2 & 4 National Insurance and Income Tax on the taxable profits of your business, or your share of profits, if you are in partnership. 	<ul style="list-style-type: none"> The company pays corporation tax on its taxable profits. Company tax rates are lower than higher rates of Income Tax. Employees and office holders are subject to PAYE and NICS on their earnings from employment and many benefits attract income tax too. Shareholders who are higher rate taxpayers will pay additional tax on dividend income. When IR35 and the Managed Service Company provisions apply, the company must deduct PAYE and NICs on its income.
Losses	<ul style="list-style-type: none"> You can offset your trading losses against your other income. From 2013/14 there is a cap on the amount of relief that you may claim for losses and interest payments 	<ul style="list-style-type: none"> The company can offset its trading losses against its other income, but not against your income as an individual

<p>Extracting Profits</p>	<ul style="list-style-type: none"> You may withdraw cash from the business without tax effect. 	<p>You are taxed on:</p> <ul style="list-style-type: none"> Any income withdrawn from the company. If it is a distribution it is taxed as a dividend. If it is earnings it is under PAYE and subject to NICs. Most employment benefits received by you or your family and household are taxable (subject to tax-free exceptions). Shares or securities in the company which are given to you at less than market value.
<p>Borrowing</p>	<ul style="list-style-type: none"> You are free to borrow from the business bank account, it is your account. If your business bank runs at an overdraft due to the amount of funds that you have withdrawn personally, tax relief on bank charges and interest will be proportionately restricted. 	<ul style="list-style-type: none"> A director may borrow from his own company. Limits are set by Companies Act 2006, but there are tax costs: The company will pay a tax charge of 25% if you borrow from the company and do not repay the loan within nine months of the year end. If the loan is interest-free there will be a tax charge for the director based on beneficial loan interest.
<p>Pension</p>	<p>You can only have a Personal Pension.</p>	<ul style="list-style-type: none"> Company schemes may be far more generous in terms of benefits and limits than Personal Pension. A SIP or SAS, or an unapproved scheme may be used to hold assets used in the company and may have flexibility on borrowing multiples. You are required to consider pension arrangements for employees.

<p>Insolvency</p>	<ul style="list-style-type: none"> • If the business fails you will be personally (or jointly with your partners) liable for its debts. You may go bankrupt. 	<ul style="list-style-type: none"> • If the company fails, your liability is limited to the amount unpaid on your shares (if any) unless you have made a personal guarantee (which is often required by banks). • As a director you can be held personally accountable if you continue trading when your company is insolvent and this causes financial loss to creditors. This could result in your personal bankruptcy.
<p>Accounts</p>	<ul style="list-style-type: none"> • There is no requirement that you prepare accounts for tax purposes. However you may find that it is difficult to keep on top of your business, collect debts and work out profits without keeping accounts. • From 2013/14 you have the option of cash accounting or conventional accounting. • If you trade through a limited liability partnership you must prepare accounts for filing with Companies House., conventional partnerships and sole traders have no such filing requirement. • You may need annual accounts to complete your personal tax return which includes a balance sheet section. • Small businesses may use a very basic (three line) format for a business which trades below the VAT threshold. • Your accounts are not submitted to HMRC unless you are subject to an investigation. • Your taxable profit under Self Assessment must be prepared in accordance with Generally Accepted Accounting Practices (GAAP) for tax purposes unless you are cash accounting. 	<ul style="list-style-type: none"> • You must prepare annual accounts under the provisions of the Companies Act, these can be abbreviated for filing with Companies House. • HMRC require full accounts for Corporation Tax which must be submitted using its own or specialist software. • Accounts must be prepared in accordance with accounting standards. • From 1 April 2011 most companies must submit their accounts online in iXBRL.

<p>Selling the Business</p>	<ul style="list-style-type: none"> • When the business or assets used in it are sold, you are personally taxed on any gain under the Capital Gains Tax (CGT) rules. • A disposal of an interest in a business or a disposal of business assets may qualify for CGT Entrepreneurs' Relief. 	<ul style="list-style-type: none"> • When the business or the assets used in it are sold, there is a double tax charge on shareholders. The company pays corporation tax on any profit that it makes on disposal. The shareholders are taxed on the distribution of the proceeds. • It may often be more efficient to sell the shares in a company, rather than its trade or business, or individual assets. • Company shares can be gifted. • Providing you own more than 5% of a trading company, a disposal with gains of up to £10 million may qualify for CGT Entrepreneurs' Relief.
<p>Death</p>	<ul style="list-style-type: none"> • When you die your business ceases. You can pass all or part of it down to the next generation. • In a partnership you can pass on your share of the partnership. • Business Property Relief (BPR) will apply for inheritance tax (IHT) purposes if the business is a qualifying trade. 	<ul style="list-style-type: none"> • When you die the company lives on: it is a separate legal entity. • The company's shares will qualify for Business Property Relief (BPR) for IHT purposes, providing the company is engaged in trade and its activities are not wholly mainly investment activities. • There is no IHT relief on outstanding directors' loans. • Assets that are held outside the business qualify for 50% BPR.
<p>Paying Yourself</p>	<ul style="list-style-type: none"> • You can withdraw any amount of profits, but it is not classed as remuneration as you are not an employee. • Paying a salary to a spouse or family members must be commercially justified to be allowable for tax purposes. 	<ul style="list-style-type: none"> • There is no restriction on the size of your salary, but it is subject to PAYE and NICs. • Paying a salary to a spouse or family members must be commercially justified to be allowable for tax purposes. • If your contracts fall within the IR35 regime or the company is a managed service company PAYE and NICs will apply to income.

<p>Expenses in General</p>	<ul style="list-style-type: none"> You obtain tax relief for expenses that are incurred wholly and exclusively for the purposes of the trade. If you can identify a proportion of an expense that relates to business you can claim the same proportion against tax. An adjustment must be made for tax to add back the proportion of any expense that relates to “private use”. Most commonly private use will be in respect of your use of telephone or power, own consumption of goods, and motor running expenses. 	<ul style="list-style-type: none"> The company obtains tax relief for its expenses if they are incurred wholly and exclusively for the purposes of the trade. If a director incurs private expenses through the company, they may be treated as earnings, if he is a shareholder the amounts are treated as distributions.
<p>Cars & Fuel</p>	<ul style="list-style-type: none"> A sole trader or partner can claim capital allowances on a car, disallowing a proportion for private use. Low-emission cars can be tax efficient for family members on the payroll. There is no adjustment for fuel benefit for you as a sole trader, you merely disallow a proportion of your fuel costs in relation to private use. 	<ul style="list-style-type: none"> The company obtains full capital allowances on cars, irrespective of any private use by employees. Cars may be expensive as benefits in kind but this depends on list price and the CO2 emissions of the vehicle. It may be better to run your own car and the company can reimburse using HMRC’s Authorised Mileage rates. Low-emission cars can be a tax break for family members on the payroll. It is not tax efficient to provide company car drivers with fuel for private use, employers are permitted to reimburse company car drivers for business mileage but they must use special employer's advisory rates.
<p>Mobile Phones</p>	<ul style="list-style-type: none"> Mobile phones will be subject to private use so a tax add-back is expected on your tax return. 	<ul style="list-style-type: none"> Mobile phones can be provided if the contract is in the company’s name, tax free. Only one per household.
<p>Computers</p>	<ul style="list-style-type: none"> You can obtain capital allowances on a computer. An add back of allowances will apply if there is substantial private use. 	<ul style="list-style-type: none"> Providing you need to use one to perform your role your company can provide a computer without any tax consequences.

Tax-Free Benefits & Incentives	<ul style="list-style-type: none"> • These do not apply to the self-employed. 	<ul style="list-style-type: none"> • Many different benefits and employment incentives can be provided free of tax (the company will obtain tax relief on the cost of providing these too).
Working from Home	<ul style="list-style-type: none"> • You will be able to claim a deduction for mortgage interest, rates and light and heat, if you have an office at home. 	<ul style="list-style-type: none"> • You can claim £4 per week without receipts for home expenses. • Alternatively, the company can reimburse you for light and heat, but not mortgage interest or council tax.
Charing Rent for use of Home	<ul style="list-style-type: none"> • A sole trader cannot charge himself rent. 	<ul style="list-style-type: none"> • A director you may set up a licence between you and your company to rent an office (or other space) in your home or outbuildings. This will enable you to recharge a proportion of mortgage interest and council tax. • You will need to declare this as income and prepare rental accounts as for Self Assessment tax purposes.