

The Scottish Government's New Entrants to Farming Programme



Guidance Note: Starting Up In Business



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Starting Up In Business

Having made the decision to be your own boss there are a number of factors to consider before trading begins.

The business plan

The business plan is the key to success. If you need finance, no bank manager will lend money without a sensible plan.

Your plan should provide a thorough examination of the way in which the business will commence and develop. It should describe the business, product or service, market, mode of operation, capital requirements and projected financial results.

Business structure

There are three common types of business structure:

- **Sole trader**

This is the simplest form of business since it can be established without legal formality. However, the business of a sole trader is not distinguished from the proprietor's personal affairs.

- **Partnership**

A partnership is similar in nature to a sole trader but because more people are involved it is advisable to draw up a written agreement and for all partners to be aware of the terms of the partnership. Again the business and personal affairs of the partners are not legally separate. A further possibility is to use what is known as a Limited Liability Partnership (LLP).

- **Company**

The business affairs are separate from the personal affairs of the owners, but there are legal regulations to comply with.

The appropriate structure will depend on a number of factors, including consideration of taxation implications, the legal entity, ownership and liability. For further information please see separate guidance note on business structures.

Business stationery

There are minimum requirements for the contents of business stationery, both paper and electronic, which will depend on the type of business structure.

Books and records

All businesses need to keep records. They can be maintained by hand or may be computerised but should contain details of payments, receipts, credit purchases and sales,

assets and liabilities. If you are considering purchasing computer software to maintain your records, obtain professional advice.

Accounts

The books and records are used to produce the accounts. If the records are well kept it will be easier to put together the accounts. Accounts must be prepared for HMRC and if a company is formed there are strict legal requirements as to their layout.

A company and a LLP may need to have an audit and will need to make the accounts publicly available by filing them at Companies House within a strict time limit.

Taxation

When starting in business, taxation aspects must be considered.

- **Taxation on profits**

The type and rate of taxation will depend on the form of business structure. However, the taxable profit will normally differ from the profit shown in the accounts due to certain expenses which are not allowed for tax purposes and the timing of some tax allowances. Payment of corporation tax must be made online.

- **National insurance (NI)**

The rates of NI contributions are generally lower for a sole trader or partnership than for a director of a company but the entitlements can also differ. In a company, it may be possible to avoid NI by paying dividends rather than salary.

- **Value added tax (VAT)**

Correctly accounting for VAT is an essential part of any business and neglect may result in a significant loss.

When starting a business you should consider the need to register for VAT. If the value of your taxable sales or services exceeds the registration limit you will be obliged to register. It can often be beneficial for agricultural businesses to register for VAT before you reach the statutory threshold so that VAT can be reclaimed on purchases.

Employing others

For the business to get off the ground or to enable expansion, it may be necessary to employ staff.

It is the employer's responsibility to deduct income tax and national insurance and to account for student loan deductions. The balance must then be paid over to HMRC. Payroll records should be carefully maintained.

You will also need to be familiar with employment law. (For further information, please see separate guidance note on 'Employing People'.

Insurance

Comprehensive insurance for business motor vehicles and employer's liability insurance are a legal requirement. Other types of insurance such as public liability, consequential loss, business assets, Keyman and bad debts should be considered.

Pensions

Putting money into a pension scheme can be a way of saving for retirement because of the favourable tax rules.

The latest reforms, under Pensions Act 2008, have brought about a new requirement on UK employers to automatically enrol all employees in a pension scheme and to make contributions to that scheme on their behalf. Enrolment may be either in to an occupational pension scheme or the National Employment Savings Trust (NEST).

Compliance with the new regulations will take effect for the largest employers first, starting from 2012.

Getting further help

Whilst some generalisation can be made about starting up a business, it is always necessary to tailor the strategy to fit your situation. Any plan must take account of your circumstances and aspirations.

Whilst business success can never be guaranteed, professional advice can help to avoid some of the problems which befall new businesses. Taxes have specific rules and reliefs which apply to specific trades such as agriculture and it is advisable to seek the advice of accountants who specialise in this area. It is also advisable to take advice on the financial records you need to maintain or employ the services of an experienced book-keeper.

Sources of assistance:

Registration for taxes can be done online by visiting HMRC website www.hmrc.gov.uk.

HM Revenue & Customs also gives advice on starting your own agricultural business at www.hmrc.gov.uk/courses/syob/farm/index.htm and this gives guidance on how to register yourself and business for tax, national insurance, PAYE, VAT, etc as required.

This guidance note was prepared by Robin Dandie, Head of Agriculture at Johnston Carmichael chartered accountants www.jcca.co.uk.