

New Entrants to Farming

Starting up in business



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Starting Up In Business

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

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 requires compliance with greater legal regulations and accountancy procedures.

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 FAS New Entrant 'Succession and Business Structures' at <https://www.fas.scot/new-entrants/>.

The business plan

The business plan is the key to success. If you need finance, no funder will invest in your business without a realistic plan.

Your plan should provide a thorough examination of the way in which the business will commence and develop. It should describe you by way of your cv, the business, product or service, market, mode of operation, operator skills and capital requirements. Your plan should also include 3 years of financial projections.

See FAS New Entrants guidance note 'Business Planning and Financial Management' at <https://www.fas.scot/new-entrants/>.

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 sale debtors, plus other assets and liabilities.

Regular preparation of your books and records can help with monitoring your goals against your financial projections (suggestion at least monthly). It is also important to maintain regular book-keeping records for taxation purposes.

Accounts

The books and records are used to produce financial accounts. Good book-keeping will make it easier and less costly to compile the official financial accounts/statement. Accounts must be prepared for HMRC. Strict requirements as to the layout of these accounts are set if the business is formed as a company.

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

Consider issues of taxation when starting a business:-

- **Taxable 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 end of year financial accounts due to certain expenses, which are not allowed for tax purposes, and the timing of some tax allowances.

- **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 or reduce NI by paying a dividend rather than a 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.

Additional free guidance is available from HMRC www.hmrc.gov.uk/courses/syob/farm/index.htm or contact your accountant for detail. See FAS New Entrants guidance note 'Taxation of Agricultural Businesses- summary' at <https://www.fas.scot/new-entrants/>.

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 pension and student loan deductions. Payments then require to be paid to HMRC. Payroll records should be carefully maintained.

You will also need to be familiar with employment law. (For further information, please see separate FAS New Entrants guidance note on 'Employing People' at <https://www.fas.scot/new-entrants/>).

Insurance

Comprehensive insurance for business motor vehicles and employer's liability insurance are a legal requirement. Other types of insurance such as the below should also be considered:-

- public liability,
- consequential loss, business assets,
- 'key person' insurance (life assurance or life assurance and critical illness cover policy) and
- bad debts.

Pensions

Putting money into a pension scheme can be a way of saving for retirement because of currently 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)

<http://www.nestpensions.org.uk/schemeweb/NestWeb/public/home/contents/homepage.html>.

Compliance with the new regulations took effect for the largest employers first, starting in 2012. Phasing in of employer pension contributions affects businesses employing fewer than 30 personnel from January 2016 and by April 2017 at a minimum contribution of 2% of a worker's pay. This minimum contribution also rises over time from April 2018.

Getting further help

It is always necessary to tailor advice to fit your situation when starting a business. 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 that 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 an accountant who specialises 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.

In addition to financial management, also see FAS New Entrant guidance note 'Starting an Agricultural Business' for more information on required statutory and advisory registrations and records at <https://www.fas.scot/new-entrants/>.

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.



With thanks to Robin Dandie, Head of Agriculture, Johnston Carmichael chartered accountants for help in preparing this guidance note – <http://johnstoncarmichael.com/>