Business Basics explained

Delegates handout

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Contents: Naming a business / Legal Entity / Payroll / Intellectual Property / T&Cs / Insurance

What is in a name?

Try to be objective when devising your business name, remember that other things will change as your business grows but your business name will not.

Also remember that you will be using your name everywhere you go and on every type of literature that you produce - be proud of it.

It is generally considered wise to choose a name that will last and that will give potential customers an insight into what you do, but above all your business name should be memorable.

Your name could also include reference to your values and objectives if you wish. Sometimes it can be as simple and powerful as your own name and a strap line describing what you do, e.g. Juliet Harris — Jewellery Designer.

Some businesses prefer to be creative and some wild and wacky.

When you have thought of a business name, make sure nobody else is already using that name, especially in your geographical area.

– check the business listings and directories at your library
– Check on the internet
– check that the business name is not already registered as a trademark

Before you set up a business or (if you have inherited a business) do anything to change the business name, search the index at Companies House to see if there are already any businesses with names similar to the one you want.

People starting a business as a sole trader or as a partnership can trade under their own name or create a business name.

There are a few basic rules which apply:
– The name must not be offensive
– You must not use the words Limited, plc or equivalent
– The name must not contain sensitive words and expressions

If you are not setting up a Limited company and you find that another business, with the same name exists at the other end of the country you can use that name however if the other business finds out, they may not happy about it but there is not much that can be done. You are not governed by the same rules as Limited Companies in these circumstances

If you decide to form a limited company you will need to register your name and other details with Companies House.
– Your company name must end with the words limited, ltd
– The name cannot be offensive

– The name isn't the same as, or very similar to one already on the register
– The name doesn't include any sensitive words or expressions.

The full version of the rules regarding company names can be obtained from Companies House www.companieshouse.gov.uk/info

This Guardian Article highlights the potential disasters in choosing the wrong name www.guardian.co.uk/world/2009/jun/30/russia-nigeria-gas-name-blunder

This ABOUT.Com Article sums up Business Naming (awaiting reproduction permission)

Intellectual Property (IP)

Your Intellectual property is a valuable business asset. It can increase your competitive edge and contribute to your success. If you fail to protect your IP it can put your business at risk and allow others to take advantage of your hard work.

IP cannot be seen or touched and it can be difficult to understand.
Under IP law you can:

- Protect the branding of your goods/service using a trademark;
- Protect the way your product looks using a registered design;
- Protect how the technology works using a patent;
- Protect any use of literature or artistic work automatically using copyright.

If other businesses try to copy anything you have protected or use your IP without your permission it is your 'infringement'.

Companies who infringe your IP can easily destroy your reputation, your markets and customer goodwill. If you have protected your IP there is a legal framework in place to assist you. As well as making sure you protect your own intellectual property, you should make sure you are not infringing anybody else's rights,

The Intellectual Property Office www.ipo.gov.uk can help you determine the best way to protect your business.

Company URLs: www.mycompanyurl.co.uk

Customers expect businesses to have a website; if they can't meet you face to face they want to know about you and your services and products, the more you can tell them, the more confidence they will have in your business – People buy from People and it's no different online.

It's a key method of communication, providing a shop window or online brochure for your goods and services. The internet is a key marketplace for niche market goods and services and it's crucial for rural businesses which don't have the footfall Advantages of their urban competitors:

Be WEB aware from the very beginning. Check for domain names if you intend to have a website. You may not think you will need it now but you probably will in the future. If the name is available buy it and any similar. Domain names are relatively inexpensive, if you can afford buy the .co.uk and the .com.

The same rules apply to web names as company names, but there are some further implications:

Spelling – it is not a disaster if somebody spells your company name wrong but misspelling a web address means they will not find you. So think carefully about the ease of spelling and particularly think about what the words will look like merged together.

"Experts Exchange", a knowledge base where programmers can exchange advice and views www.expertsexchange.com Art designers - www.speedofart.com

The length of your domain name – there is some debate over the benefits of choosing a short domain name vs. a long domain name.

A long domain name may be more SEO friendly and can better describe your products. A short domain name, on the other hand is easier to remember and easier to type. You can use up to 67 characters, so you don't have to settle for short, obscure, or abbreviated domain names, but be aware that the longer the name the greater the chances of mis-typing and customers not finding you.

Using hyphens in domain names – if you can't get the exact URL that you want you can add a hyphen but be aware, customers easily forget a hyphen so you run the risk of sending them to your competitors. On the positive side splitting up the words with a hyphen may improve SEO. URL for SEO - having your major keywords in your domain name may help with your search engine rankings may be true in some obvious cases but the major SEO work comes later. Your domain name should be chosen to best represent your company's interests not those of the search engine. If your keywords logically fit – great but it is not the be all and end all (never harmed Google).

There is more about websites and domain names in the Marketing section.

Business Structure

You need to carefully consider the status of the business you are about to start. You have several options and there are legal and tax implications to each one.

A Sole Trader - This is an individual trading on their own, having full autonomy over all business decisions. All earnings/profits from the business belong to the sole trader. This type of business can start operating almost immediately and if your business is dependent simply on you and your skills this may be the most appropriate option. A sole trader's business is usually totally dependent on the individual's availability and ability to work, so if illness, family commitments etc. take the individual away from the business it will struggle to survive.

As a sole trader you can take on employees and give them managerial roles but generally sole traders tend to be one man bands. This status can be limiting if you wish to grow your business but don't have any one to share the responsibility with.

<u>As a sole trader you must</u>:
– Register as self-employed by contacting HM Revenue and Customs (HMRC)
– complete an annual self-assessment form for tax, so you need to keep accurate records to support this (we will cover this area on the finance module)
– pay Class 4 National Insurance Contributions which are payable as a percentage of your net profits when they reach a certain level, as well as fixed rate Class 2 NICS (currently £….. PW)

Do be aware that sole traders have unlimited liability for debt. In the eyes of the law a sole trader and his/her business are one and the same, so if the business is in trouble all personal assets are at risk.

<u>Partnerships</u> - This means two or more people setting up in business together. The partners share all the risks, costs, responsibilities and profits and each partner is equally liable for any debt. Day to day management can be allocated through individual roles and responsibilities - planning and greater success can be achieved as a result of two heads being better than one!

The partnership has no legal existence of its own and in the eyes of the law a partnership is simply a collection of people. If one partner for whatever reason withdraws from the partnership this would have implications for the existing partnership agreement.

A partnership relies on a relationship of absolute trust - one man's dishonesty can lead to his partner's personal ruin and disagreements can easily lead to the breakdown of the business. If trauma affects one partner or one person decides to leave the partnership, the business is more likely to survive if a written partnership agreement is in place.

A partnership agreement is a legal document that sets out the basics about roles and responsibilities within the partnership and it assigns a share of the business and profits/losses to each individual involved. A good solicitor will be able to help with this.

Each partner must register as self-employed and pay national insurance contributions as per a sole trader.

Limited Companies - The biggest difference between sole traders, partnerships and limited companies is that a limited company is treated as a separate entity from its owners and has its own legal existence. Most importantly the company finances are separate from the personal finances and assets of the business owners.
If you are setting up a venture which requires a lot of start-up investment, limited company status will give you more protection should the company fail. Depending on circumstances, limited company status can be seen as advantageous from a tax point of view.

Shareholders or members of the company can be individuals or other companies. They are not liable for the debts of the company unless they have given personal guarantees e.g. on bank loans. If the company fails they will lose the money they have invested but that is as far as the liability goes.

In a **limited company**, a board of directors and a management team control the business.

The overall tax bill may be lower. As a sole trader, all profits are taxed at the personal rate. As a company director only the salary you pay yourself as an employee of the company is taxed in this way (along with Class1 NICs), but you may also be able to take 'dividends' out of the company profits. Unlike wages, these payments do not attract NI, although the company will have to pay employers NICs. The profits of the company itself are then taxed separately at a lower business rate as corporation tax.

As a limited company you need to have a Memorandum and Articles of Association drawn up and you must register with the Registrar at Companies House.
You must display certain wording in your business title but you cannot use the words Ltd, etc. if you are not registered as a limited company - it is illegal!

As a limited company you are obliged to file annual accounts at Companies House.

Limited Liability Partnership (LLP) - This is a hybrid status being a mixture of a partnership and a limited company.

Each partner's liability is limited to the money they have invested in the business and the amount of personal guarantees they have given. At least two of the partners are designated as Members.

LLPs must register at Companies House and have to file annual accounts but the profits paid to a member of an LLP are taxable as per a sole trader and liable to Class 2 and Class 4 NICs (if applicable).

Introduction to Tax, National Insurance and VAT
If you are starting up in business, you must comply with a number of important tax-related regulations.

There are three main kinds of tax that are relevant to most businesses:

– Income Tax
– Value Added Tax (VAT)
– National Insurance

Limited Companies will also be liable for corporation tax.
NB the information given is based on changes made in the March 2011 budget.
Income Tax - If you are self-employed (as a sole-trader or in a partnership) you must assess your own tax under 'tax self-assessment', complete a tax return and pay any tax due to HM Revenue and Customs (HMRC) by the required deadlines of 31 January and 31 July. Partnerships also have to submit a partnership tax return in addition to individual returns.

The amount of tax you pay is based on the profit that your business makes. Some people will be required to make two tax payments; one for the current tax year and one in anticipation of the following tax year. It is important therefore to have saved money towards your likely tax bill, well in advance.

If you employ staff, your business is required to deduct income tax from their wages and salaries and pay this to HMRC (this is known as PAYE – Pay as You Earn).
Self-Assessment Tax - Sole traders pay income tax on the profit that their business makes.
In partnerships, the profit is divided between the partners (according to the terms of their partnership agreement) and each person is taxed on the portion of the profit that accrues to them. Drawings (the money that sole traders or partners take out of the business to live on) are simply an advance against profit and so are still taxable as income.

Profit is what remains of your business income after all material costs, overheads; wages for employees and allowable business expenses are deducted. Capital allowances - based on your business expenditure on capital assets – may also be deducted before profits are calculated. Your personal allowance (£6475.00 for the tax year 2011/12 for under 65's) is deducted from this profit and the remainder is subject to income tax at the current rate.

PAYE Tax - As an employer you have a legal obligation to operate Pay as You Earn on the payments you make to your employees if their earnings reach the National Insurance Lower Earnings Limit (LEL). For the tax year

You use the employee's tax code and National Insurance category letter to work out how much Income Tax and NICs to deduct from their pay and how much Employer's Class 1 NICs you owe on their earnings.

By the 19th of each month - or by the 22nd if you make electronic payments - HMRC must have received the amounts owed. You may be able to send the amounts due every quarter if your average monthly payments are likely to be less than £1,500.

Corporation tax - If your business is registered as a limited company, it is liable to pay corporation tax on any profits the company makes. The Directors of the company pay income tax on their salaries, as do any other employees.

If there is sufficient profit, companies can pay dividends to the shareholders. It can be advantageous for shareholders who also work in a company to take a lower salary and a higher dividend, as dividends do not attract NI contributions.

National Insurance
NI is a contribution towards state benefits such as retirement pension, unemployment and incapacity benefits. Businesses that employ staff must ensure that employers' and employees' contributions to NI are paid, whilst self-employed people have a separate contribution to pay.

There are 4 classes of NI:
Class 1 - Class 1 NI contributions apply to employed people and are paid by both the employer and the employee.

Class 2 If you're self-employed you pay Class 2 and Class 4 National Insurance contributions. If your profits are expected to be less than a certain amount you may not have to pay Class 2 National Insurance contributions.

You pay Class 2 National Insurance contributions either monthly by Direct Debit or by quarterly bill.
You pay Class 4 National Insurance contributions when you pay your Income Tax.
*exemptions from paying Class 2 NI may be made for individual weeks if you are unable to work due to illness or other forms of incapacity. You may need to pay Class 2 contributions even if you are paying Class 1 if you are both employed and self-employed.

Class 3 - These are voluntary contributions, which allow people to protect their right to contributory benefits even if they are not liable to NICs under Class 1 or 2, or have not paid enough contributions in the past to qualify for benefits.

You can pay voluntary contributions (usually Class 3 National Insurance contributions) Class 3 voluntary contributions are paid either monthly by Direct Debit or by quarterly bill. But if you have gaps in your National Insurance contributions record you can make one-off payments of voluntary contributions to fill these.

VAT (Value Added Tax)
VAT is a tax on most sales, services and imports and is paid at each stage of the production and distribution chain.

If your turnover (sales) is more than £83,000 per year, your business is required to register for VAT with HMRC. (The compulsory VAT registration threshold is usually raised each year.)

Once registered for VAT, you must charge VAT on the products and services you sell, but your business is also entitled to claim back any VAT paid for business supplies and services purchased.

There are currently 3 rates of VAT:
– Standard rate of 20%
– Reduced rate of 5% which is charged on domestic fuel and power as well as other domestic energy saving products. The renovation and conversion of certain buildings is also subject to this reduced rate.
– Zero rate which applies to specified categories of goods

Some goods and services are exempt from VAT.
If your turnover is lower than the legal threshold for registration, you may register voluntarily if you want to reclaim input VAT.

Hints and tips
☐ Make sure that any tax-related records are well organised and that you keep payments up to date and on time.
☐ If you need help, talk to an accountant immediately, before your tax related problems grow out of proportion.
☐ Keep slips and paper records of sales, purchases and wages for up to five years in case they are required for a tax inspection.

Insurance
By law you must have the following types of insurance:
– Employers Liability Insurance - this is compulsory if you have employees, or if you are a director of a limited company. This covers you against claims from your employees for accidents or illnesses that are a result of your work.

– Car Insurance for Business use - even if you are only going to bank your takings by car, your vehicle must be insured for business use. You must also remember that if you, or your spouse, have different businesses the vehicle can only be insured for one business. You will require at least third party insurance.

– Special Risks - there may be special risks which need to be covered for your particular type of business.

But you should also consider the following cover:

– Premises - insurance for fire, theft or damage to stock, assets or money. This should include taking cash to the bank and loss of profit and business interruption policies. Please note you may require additional insurance for large display windows.

– Public Liability - this cover protects you if you injure a third party or damage property belonging to other people.

– Product Liability - this cover protects you from the effects of legal action as a result of damage to property or personal injury caused by your product.

– Professional Indemnity - protects professional practitioners such as surveyors, architects, consultants of any type giving advice, from the effects of legal action caused by alleged sub-standard work or bad advice.

– Goods in Transit Insurance - to cover the value of goods being transported by vehicle. This is normally covered under motor vehicle insurance policies.

– Life and Pension Assurance - a good way of protecting you and your business and saving for the future.

– Health and Accident Insurance - loss of profit and business interruption policies provide you with peace of mind and valuable cover.

– Share Protection - to cover the death of your partner or fellow director, which will enable you to retain control of the business –

Terms and Conditions of Business
When you start trading you should protect both yourself and your customers by developing written term and conditions of business – your T&Cs.

Put simply, your written T&Cs state the contractual terms under which you trade with your customers and should include such things as what you are going to supply, how you will supply it, when it will be supplied and when you need paying.

You may need paying up-front when the order is placed, on delivery of the goods or services (i.e. cash on delivery) or by a given date after delivery e.g. 30 day payment terms, but it is important that your customers know what is expected of them as well as what they can expect of you.

Although business T&Cs have some generic content, there are other considerations, such as legal requirements, that may be specific to your type of business. You should ensure that you research these issues thoroughly, taking professional advice where necessary, and include these specifics where appropriate.

Why have T&Cs?
To demonstrate to your customers that they are buying from a professional business

To offer your business some protection against legal claims that may be made against you or your business

To avoid confusion – everyone knows where they stand if your T&Cs are written down but, if you don’t tell your customers what your T&Cs are until you send out the invoice for goods/services supplied; you can’t rely on them for protection, should the transaction go wrong.

To set clear terms that could be enforced against your customer if necessary. The most important bit of incorporating terms and conditions into your business dealings is ensuring that they are introduced at the beginning of the business relationship and accepted by all parties involved.

Acceptance of your T&Cs should be confirmed by your customer signing a copy of the T&Cs.

What should you include in the T&Cs and how should they be presented?
When preparing your T&Cs, you don't have to write pages. The detail you include should be set out in paragraphs with short 1 or 2 line terms explained under different headings. Headings you may want to cover include:

- Definitions of the key terms
- Your pricing
- Your payment terms
- Interest payments on overdue invoices
- Any warranties or guarantees you offer
- Delivery
- Cancellations and return of goods
- Complaints

What happens if the transaction goes wrong?
The law recognises if either party breaches the agreed T&Cs during the business transaction. To enforce the T&Cs you would need to make a claim to a court of law and the penalty may be either an award of money damages or a party being ordered by the court to fulfil their obligations.

Finally, some hints and tips………
Encourage your customers to read your T&Cs – it's in their interest to understand the business relationship

Make your T&Cs customer friendly and fair – don't try to impose conditions that only favour you.

Promote your T&Cs as a very good reason for your customer to do business with you.

Offer alternate ways out should a problem arise – be flexible and work with your customer to resolve issues rather than apply severe penalties and risk your future business relationship.