

CliffordFry&Co.

Chartered Accountants & Registered Auditors

Your Essential Guide to Setting Up in Business.



HERE *to* HELP.

When anyone sets up in business there are inevitably lots of questions that need answering...

- Should the business be a:

Limited Company
Limited Liability Partnership
Partnership
Sole Trader
Other?

- How will tax be calculated and how can it be kept to a minimum?
- What are the VAT rules?
- Does a payroll need to be set up and what about a pension scheme?
- What costs can be offset against income?
- What are the risks and responsibilities for a business owner?

The list is a long one and the answers can vary depending upon whether the business is incorporated or not.

Because everyone's circumstances are different we would always recommend meeting with a qualified accountant to discuss your particular situation, especially regarding your tax position.

There are lots of accountants to choose from, but they are not all like us at Clifford Fry & Co. If you need some help please do not hesitate to contact us either by phone or email.

CONTENTS:

1. What kind of business do I need to set up?
2. Setting up a Limited Company?
3. Setting up PAYE/Payroll?
4. What to do about Bookkeeping?
5. Setting up a business with someone else?
6. What can I offset against my business profits?
7. What does it mean to be a Director or Shareholder and what responsibilities come with it?
8. What shall I do about...

Solicitors
Insurances
Auto-enrollment?

What kind of business do I need to set up?

The majority of businesses are set up as either Limited Companies or Sole Traders.

Limited Company

If you set up as a Limited Company you will need to appoint a director and a shareholder as a minimum. This can be the same person.

The director is responsible for the running of the business and the shareholder owns the business (please see the director and shareholder sections for details of respective responsibilities).

The director can be paid a salary via a payroll scheme and the shareholder receives dividends. Both are income but are taxed differently and we can give you advice on how this works.

The company pays Corporation Tax on its profits (which for 2026/27 is 19% up to £50,000. 26.5% from £50,000 to £250,000 - 25% thereafter) and the company generally pays this tax nine months after its financial year end.

The rate of tax paid by a Limited Company is usually lower than that paid by an individual. A company is, compared to an individual, better suited to retaining some or all of its profits after tax. This cashflow advantage can enable a company to expand more rapidly than it would do if it were paying tax at the rate an individual pays.

A Limited Company also has the protection of limited liability. This means that (subject to some exceptions) the directors and shareholders are not personally liable for the debts of the company. Their liability is limited to the amount they have paid (including any amount due but not paid) for their shares. The main exception to this is where individuals personally guarantee company debts.

If you would like some assistance in setting up a Limited Company please feel free to give us a call. (Please also see setting up a Limited Company section).

Sole Trader

If you wish to trade as a Sole Trader you need to register the fact with HMRC within three months of starting, and then you are ready to begin.

You will pay tax and National Insurance on the income you earn in a tax year (6 April to 5 April) and the rate of tax and National Insurance can vary depending on the level of profits you make.

In order to completely understand your tax position it is probably best that you take advice.

The advantage of trading as a Sole Trader is that it is relatively simple compared to setting up a Limited Company but the downside is that you are personally liable for the debts and actions of the business. This means your personal assets can be at risk if you get it wrong! As mentioned above there are also major differences in how you will be taxed, so good advice based on your individual situation is vital.

Partnerships

A Limited Company can have one or many directors and similarly shareholders. These can be changed over time if required. The company, however, can continue unaltered even if there are changes in the people that direct and own the company.

If a Sole Trader wants to go into business with someone else then they can enter into a partnership. The partnership changes as people come and go. In a partnership the taxes are based on the individual partner's share of profits and are taxed in the same way as a sole trader.

As with a sole trader the members of the partnership are individually (and also jointly) liable for anything that goes wrong within the partnership.

Limited Liability Partnership

If you wish to avoid the liability issues you could choose to set up a Limited Liability Partnership. The tax regime is fundamentally the same as a normal partnership but you now however have the protection of limited liability.....you do still however need to pay your own tax personally.

Others

There are other ways of setting up a business. It could be a Community Interest Company or a Company Limited by Guarantee.

If all of this seems a lot to take in, then please feel free to give us a call and arrange a meeting and hopefully we can help you decide on what will work best for you.

Setting up a Limited Company?

We, naturally, recommend setting up a company through ourselves. The advantages of this compared to doing it yourself are:

- Saves you time and stops you having to worry about it!
- We can use our office address as your Registered Office and service office address thereby keeping your home address private.
- We can ensure that the right people are set up as directors (Please see the section 'what happens about the following: auto enrolment').
- We can set up the correct share structure. This is particularly relevant if you want different classes of shares which can often be the case as it assists with dividend allocation and can help you be more tax efficient.
- We can deal with any communications from Companies House e.g. confirmation statements etc.
- We can keep and update your statutory books.
- We can give you dividend vouchers and standard directors' minutes etc. as required.

Setting up a bank account

Once you have set up your company you will need to open a corporate bank account. The fact that you may already have a sole trader business bank account or a personal bank account with a bank will make no difference to the procedure. Usually it's fairly arduous and to be honest a bit of a pain but it has to be done.

You will need to make an appointment with the bank and turn up with ID and a utility bill proving the address for all directors and shareholders with a shareholding greater than 25%. You will need your Certificate of Incorporation and the company's Articles of Association. (If we have set up your company we will ensure you have all of the company's documents available to show the bank).

Generally all banks are as bad as each other at setting up accounts, most will offer an element of free banking (usually 18 months). Some business bank accounts that are internet based can be quite good value so search around.

We can always recommend a bank, this may change given our experience of each bank's service at the time.



Registering for VAT

You may have to register your company for VAT, this will be the case if your turnover in any 12 month period is in excess of the VAT registration limit (which is £90,000 for 2026/27.....this may change).

The exact rules for determining when you have to register can be complicated so if you need any help in assessing your position please feel free to call.

We can assist you with registering for VAT as part of our fee for setting up your company.

It may be that you chose to register for VAT voluntarily (i.e. your turnover is less than the VAT registration limit). You may choose to do this to give the impression your business is bigger than it is.....i.e. if you are VAT registered it implies your turnover is more than the VAT registration limit. You may choose to do it for a commercial advantage e.g. all the businesses you deal with are VAT registered and by charging VAT on your sales it doesn't affect the buyer as they can claim the VAT back. From your point of view you are now able to claim back the VAT you suffer.

Once registered you can decide whether to use the flat rate scheme (there are turnover limitations) or operate VAT in the standard way. There are different percentages that apply for the flat rate scheme and operating VAT in the standard way often needs explaining.

** As you will be aware VAT is unbelievably complicated so you should always take advice before doing anything in this respect. We are always available for a chat and offer assistance.*

Setting up PAYE/Payroll

We, naturally, recommend using our payroll bureau. The advantages of this compared to doing it yourself are as follows:-

Saves you time and stops you having to worry about it!

With tax, national insurance and new auto enrolment pension payments, operating a payroll is getting quite complicated.

With us operating your payroll you are able to keep this aspect of your business private and away from members of staff. This maybe more difficult if you are using internal software and/or using staff members to calculate PAYE etc.

We have an expert team that know all the rules with regards to SSP, SMP and all the other abbreviations you don't understand.

Once we have completed your monthly payroll we can tell you how much to pay HMRC, prepare payslips that detail each of your staff members net pay as well as any pension payments.

In respect of the directors we can ensure that you are paid in the most tax efficient way and ensure this is updated as the annual allowances often change.

The service starts at £25 + VAT per month.

What to do about bookkeeping?

There are a few options you have available here.

- *Option 1* is to get a bookkeeper. If you do not know one yourself please feel free to give us a call as we have a list of bookkeepers that are keen to help.

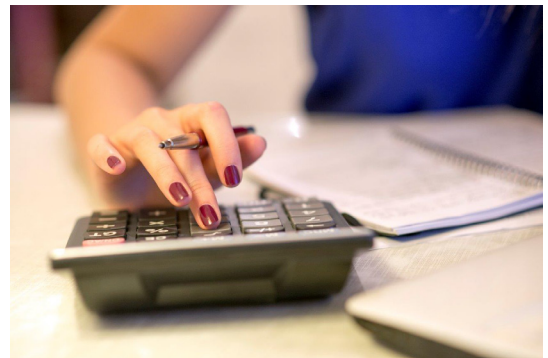
- *Option 2* is you can do it yourself but this then splits into 2 different further choices.

Firstly you may wish to use an accounting package. The biggest names in this field are Sage, Quickbooks and Xero. All of these can be bought online. If you are not sure which one to buy or how to use the software then please feel free to call, we have someone who can help. With Making Tax Digital (MTD), or if you are VAT registered, then this is the only way forward if you don't want to get a bookkeeper.

Secondly if you are not VAT registered or in MTD, you could keep your books using a spreadsheet or manually if you wish.

- *Option 3* – we could do your bookkeeping for you....to be honest getting accountants to do your bookkeeping is an expensive hobby but we understand in some cases this is the best way forward.

If you would like our help, please feel free to give us a call.



Setting up a business with someone else.

Often you need to be in business with other people. It might not seem necessary but we would always recommend that you have a written agreement signed by the respective partners/shareholders. This ensures that all angles are covered in both the good and bad times.

The agreement should include things like:-

- What happens if one party wants to leave?
- What happens if someone dies?
- How do you wish to distribute profits?
- How will disputes be resolved?

Before you sign off an agreement you usually complete a heads of agreement that in simple terms lists what you agree to. Above is just a small section of what a heads of agreement could include.

As a client, if you would like a checklist that will enable you to construct an agreement then please do not hesitate to call and we will forward one out to you.....free of charge.

We are of course accountants not solicitors, so we would always recommend that you take legal advice on this.



What can I offset against my business's profits?

One of the first questions you will ask is what costs can be offset against my profits so I can reduce my tax bill.

As you will appreciate the list could be as long as your arm but we have produced a list of the 'usual suspects' which no doubt will help you understand what you can and cannot claim.

Hopefully the information below may help:

Direct costs

- Materials and products for resale and similar
- Materials purchased for your use in your work e.g. building materials, text books, tools, brushes
- Products you have purchased with the intention of selling on e.g. stock for a shop.

Repairs and renewals

Costs of repairing items that have broken e.g. repairing a broken chair. The cost of renewing something that has got too old and needs replacing e.g. a dodgy old stapler!

Motor expenses

This can fall into two forms of claim:

1. The actual motor costs
Including fuel, insurance, servicing, repairs, AA/RAC etc., RFL...

2. Mileage costs

You can charge the business for the mileage you do on its behalf. You can claim 55p (60p with an additional passenger) for the first 10,000 business miles and 25p (30p with an additional passenger) thereafter.

There are reasons why you would choose one over the other and there are different rules for Sole Traders and Limited Companies.

Insurances

These are non-motor insurances and include professional indemnity, public liability and employer's liability amongst them.

There are other insurances such as private health insurance which are probably best explained over the phone or face to face.

Subscriptions

You should include any professional membership fees and related business subscriptions - for example the subscription for the programmes you use as a graphic designer or if you are in the building industry The Institute of Master Builders and/or your Gas Registration.

What can I offset against my business's profits? *continued...*

Telephone

These costs should include your office and mobile phones, broadband and even your fax costs (should you still have one!).

Wages – Subcontractor costs

Wages - All wages paid to your staff, the tax and national insurance deducted together with any pension payments should be accounted for.

Subcontractor costs - Payments made to your subcontractors either the gross payment or if applicable the net payment plus the CIS payment. (If you are in the building industry you might need to pay or deduct CIS - please see our CIS section for further information).

Assets

Whether it's a van, computers, plant, fixtures, fittings and the like you will need to keep a record of what you have purchased as you can claim capital allowances and reduce your tax bill.

Cars are an interesting topic and can be good or bad depending on your position. Please take some advice about buying a car before you do it especially if you trade through a limited company.

Loans

Always include details of any business loan you take out as the interest will be an allowable business cost. This may include HP and other types of asset finance.

Computer Costs

All incidental costs for your computer including software, general repairs etc. should be recorded.

Sundries

Always record the small things such as:

- Cleaning materials
- The odd sandwich whilst out on a job
- Related business magazines etc

Use of home as office

This is often a question that is asked and varies from business to business therefore it is probably best to ask us.

Postage and stationery

From paper to business cards, from compliment slips to stamps these costs need to be entered into your books.

Bank charges and interest

Often forgotten...you need to ensure you have included the dreaded costs from the bank.

Advertising

Advertising costs can include advertising on Facebook to billboard signage on the side of the road, all are allowable costs.

Protective Clothing

If you require protection clothing for the job that you do e.g a protection helmet or laboratory clothing then record the cost, however, other forms of clothing are often up for debate.

[If you have any queries, please give us a call.](#)



What does it mean to be a director or a shareholder? What are the director's and shareholder's responsibilities?

Director – The list of the director's responsibilities and obligations is long but some of the salient points are below:

As a director of a company you are responsible for exercising judgement and reasonable care to act in the best interest of the company. You are required to ensure that the company keeps good accounting records, submits accurate company accounts and correctly deals with HMRC.

As a director you will need to ensure that you correctly fill in all the necessary documents for Companies House. (We can help with this!).

A director must always act in the interest of the company's shareholders which means that they cannot enrich themselves in a way that damages the company.

A director is protected should the company go bust. There are however limits to this if the director has acted criminally or has allowed the company to trade whilst knowing it to be insolvent.

Shareholder – Again a long list but these are some of the more important points.

The shareholders of a company are the people that finance the business by purchasing shares in the company.

A shareholder doesn't manage the day to day business of a company as this is handled by the directors.

The shareholders do however need to give their agreement for many decisions, some of which include::

- Change to the constitution of the company
- Declaring a dividend
- Approving the company accounts
- Winding up a company by using a voluntary liquidation

The shareholders can vote for two kinds of resolution, an ordinary and a special one. An ordinary resolution requires a simple majority of the shareholders but a special resolution requires the approval of 75% or more of them.

A shareholder's liability is limited to the company's debts and ultimately to the amount the person paid (or has agreed to) for the shares.

As you would expect there are a great deal of obligations and responsibilities as a director and shareholder. If you have any questions, please feel free to call.



What about the following:

Insurances

It is probably best practice to have professional indemnity and public liability insurance and this is best purchased through an insurance broker. The broker can understand what you need and ensure you get the best cover. Employer's liability insurance is a legal requirement so if you employ someone you need it!

[If you would like a recommendation of local insurance brokers, please let us know.](#)

Auto-Enrolment

If you have an employee (which can include you as a director) then you need to set up a pension scheme through auto-enrolment. This can be carried out by an independent financial advisor or you can do it through The Pension Regulator website which will explain what to do.

If there are just directors with no employees then you may be able to avoid setting up an auto-enrolment pension scheme.

Solicitors

As mentioned earlier (see 'setting up a business with someone else section') you may need legal advice when setting up in business with someone else.

You may also need legal advice with disputes, commercial leases, contracts, trademarks and the list goes on.

If you need any help with the above or any other legal matter then give us a call we may be able to recommend someone who could help you.

Construction Industry Scheme (CIS)

HMRC has throughout time and through many guises tried to control the tax taken from the construction industry.

Basically HMRC offers businesses in the building industry that are paid through a contractor either a gross or a net CIS certificate.

If you are granted a gross certificate you can receive your payment from the business you have contracted to in full. If however you do not, the contractor will deduct tax from your income and pay it across to HMRC, leaving you with the balance. It is important you register your business as a sub-contractor with HMRC to ensure the correct amount of tax is deducted.

Whether you operate as a limited company or as a sole trader, you can offset the CIS tax that has been deducted against the actual tax you owe. If you have more CIS tax deducted than the tax you owe, then you will receive a tax refund.

Also, if you are in the building industry and use subcontractors you will need to apply the CIS system and assess whether you need to make a gross payment or deduct tax from your subcontractor.

We can offer advice as well as assist you with your CIS through our payroll bureau which will ensure the correct CIS deductions are paid across to HMRC.

[We hope you have found this document helpful and would be delighted to chat further if you would like any help.](#)

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