



Pinnacle People

Financial Planning Workshop

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In
partnership
with



Department
for Work &
Pensions



European Union
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Sources of Funding

3 main sources of start-up funding:

- Own resources – not something available to everyone but avoids borrowing
- High Street Bank – difficult to get unsecured start-up loans in present economic climate
- Start-Up Loan linked to NEA – unsecured and easier to get but still a commercial loan

Finance to get Started

This is not just about external funding. It is about ALL the start-up funding for your business.

- List what you already have with £ values (your accountant may be able to claim some of this back for you)
- List what you still need with £ values and total up
- You need to state where you will get the money from i.e. personal funds or Start-Up loan?
- Loans – the current situation
- Is an NEA loan required?

NEA Start-Up Loans

NEA Loan

- ▶ Min £500, Max £25,000
- ▶ Average amount lent £2,100
- ▶ Over 1 to 5 years
- ▶ Currently 6.2%
- ▶ Subject to Credit Search
- ▶ Not available if bankrupt
- ▶ Can't apply until BP approved
- ▶ Must declare all past/present arrears/defaults/judgements
- ▶ If for vehicle, no more than 6 points on license
- ▶ Other conditions apply

Application Process

- Can visit the loan company web site and download application form and information pack; this can be obtained via your Business Mentor
- You can ask your Mentor for details, but it is your responsibility to complete the application and apply for the loan
- You will need to provide all the information requested including a copy of your approved Business Plan
- Please note that for loans over £2,500 you will need to complete a 2-year Sales and Cashflow forecast and ensure that your Market Research section is adequate (in the region of 3-4 pages) and clearly demonstrates that you have done your research



Drawings, Tax and HMRC

- The self-employed are treated differently to other taxpayers
- Need to register as Sole Trader with HMRC and get a UTR
- As a business you are allowed to claim certain expenses against your tax later)
- A Sole Trader takes “drawings” rather than wages and are taxed on all profits after expenses, not just “drawings”
- A Sole Trader is expected to pay 2 kinds of National Insurance (N.I.)
- As a Director – employee of the Limited company paid a salary with possible dividends and listed at Companies House
- Limited Company pays separate Corporation Tax (c19%) on profits

Current Tax Structure

Under £12,500 per year	=	No income tax payable
Between £12,501 and £50,000	=	20%
Between £50,001 and £150,000	=	40%
Over £150,00	=	45%

➤ N.B. No personal tax allowance on incomes over £125,000

This means that if your annual profit was £55,000 per year, you would receive: £12,500 tax free, be taxed 20% on everything that you earn between £12,501 and £50,000 and 40% on the rest.

Class 2 National Insurance

This is the amount you pay towards your state pension etc.

- ▶ Once you register as a sole trader with HMRC, you will need to pay this amount through self-assessment at the end of the tax year. Or you can arrange to pay this by monthly direct debit.

Rates 2020/21

- ▶ Class 2 £3.05 per week
- ▶ N.B. Class 2 NI isn't payable if your annual profit is below £6,475

Class 4 National Insurance

As a Sole Trader, if your profits are:

- Under £9,500 per year = No N.I. payable
- Between £9,501 and £50,000 = 9%
- Over £50,000 = 2%

➤ This means that if your annual profits are £55,000 per year, you wouldn't pay any NI on the first £9,500, 9% on everything between £9,501 and £50,000 and 2% on the rest.

A Worked Example Tax and NI

My business made a taxable profit of £15,000 last year including drawings.
I took drawings of £10,000.

The tax I owe is:

Income Tax: $£15,000 - £12,500 = £2,500 @ 20\%$ = £500

Class 4 NI: $£15,000 - £9,500 = £5,525 @ 9\%$ = £495

Class 2 NI: £3.05 per week = £159

TOTAL TAX BILL = £1,154



Keeping Basic Financial Records

- It is important to keep accurate financial records of all business-related purchases and business income from customers/clients.
- It is a legal requirement of HMRC that you do so and produce a set of accounts at the end of each trading year and keep your records for 7 years!
- You can do this yourself online or use an accountant
- In simple terms you need 12 shoe boxes with 2 large envelopes in each. A box for each month and an envelope for expenses and the other for income records, e.g. invoices, till roll summaries etc.
- It will save time and money later!

4 Key Elements of Financial Management

- Personal Survival Budget – how much do you need to live?
- Sales Forecast – what do you plan to sell and at what margins?
- Cashflow – where the money is going?
- Profit & Loss – are you making money?

Let us now look at the financial template to make sense of this: