KPMG
Private Enterprise

Startup Guide

www.kpmgenterprise.co.uk/innovative-startups

Introduction

You might have heard of KPMG but you might not know about KPMG Enterprise. We are a team of startup specialists and financial experts who can give you the support you need as an early stage or fast growing company –beyond just the numbers. We're tuned into the challenges you face as an ambitious, emerging business. We are part of KPMG Enterprise which has a deep-rooted history in helping to serve the owner managed and family business space and this very much extends to aspiring entrepreneurs.

KPMG in the UK works out of 20+ offices across the country, plus multiple hubs in London dedicated primarily to startups. Behind us, we've got all the resources of our international network of firms, with startup focused teams in major startup destinations including Silicon Valley, New York, Paris, Berlin, or Dublin, just to name a few.

So wherever you are, geographically or on your business journey, KPMG can help you to scale and get to where you want to go. Our knowledge and experience could be exactly what you need to get your business up, running and winning.

This guide has been designed to help you through the earlier stages of your business. It covers the essentials, the boring, the necessary and the downright confusing. It will take you through your journey step by step and be your reference when faced with tricky financial questions that may be thrown at you. Don't hesitate to get in touch with us if you have further questions!

Tim Kay

Director, Innovative Startups
KPMG UK

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It's all here. Clear, practical advice to help you set your business up for growth.

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Section 1

Financial operations

Like most entrepreneurs, you've probably got your eyes on the financial rewards that come from building a successful business. But there are lots of day-to-day financial matters to manage first.

Getting the right legal framework in place and setting up clear systems for tracking the money that's flowing in and out of your business is essential. So too is understanding how some of the big financial decisions you make will affect your financial future.

This part of the guide can help you:

- Decide on a legal structure
- Understand what you need to do to keep your accounting records in order
- Build a financial model to forecast your profit and loss, balance sheet and cash flow
- Prepare a business plan for yourself and potential investors
- Make sure you have enough capital to cover your everyday running costs

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Choosing a legal structure

Most companies choose to set up as a limited company. But this isn't your only choice. The alternatives can require less administration and offer greater flexibility, but you need to be aware of the extra risks they expose you to.

Your options

When it comes to choosing a legal structure, you have four main options:

- Sole trader
- Limited company
- Ordinary business
- Limited partnership and limited liability partnership (LLP)
- Unincorporated association

Setting up your business

In order to define your legal responsibilities such as those below, you must choose an appropriate business structure

- Understanding which lodgements you are required to complete
- Knowing which taxes you will be obliged to enrol, manage and pay
- How to distribute profits your business makes
- Your personal responsibilities if your business makes a loss

Although you can change your business structure to a more suitable structure in time, understanding the available formation options and selecting the most appropriate structure may avoid future administration costs and professional fees to transition to a different structure.

The following business entity options are available.

1. Sole trader

If you start working for yourself, you are classed as a self-employed Sole Trader, even if you are yet to inform HM Revenue and Customs (HMRC). Sole traders are permitted to:

- Operate their own business as an individual
- Are entitled to retain all their business' net profits
- Can employ staff

It is important to note that individuals who operate as Sole Traders are personally liable for any debts incurred by the business. Additional responsibilities include:

- Maintaining adequate books and records of your business' sales and expenses
- Filing a Self Assessment Tax Return every year
- Paying Income Tax on business profits
- Paying National Insurance
- Registering for VAT if earnings are expected to be in excess of £85,000 a year

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2. Limited company

A limited company is a separate legal entity, which:

- Is responsible in its own right for any debts or liabilities incurred
- Owns any profits (net of Corporation Tax)
- Can distribute any net profits to its shareholders

Every limited company has 'members', who are the people or organisations who own shares in the company. Directors are responsible for running the company. Directors often own shares, but they are not required to hold shares.

Further Director duties include, but are not limited to:

- Employing their skills, experience and judgement to make the company a success
- Complying with the provisions required per the company's Articles of Association
- Making decisions for the benefit of the company, and not in their own self interest
- Informing other Shareholders if you might personally benefit from a transaction the Company makes
- Maintaining company records and report changes to Companies House and HMRC
- Making certain the company's accounts are a 'true and fair view' of the business' finances
- Filing accounts with Companies House and your Company Tax Return with HMRC
- Paying Corporation Tax
- Registering for Self Assessment
- Filing a Self Assessment Tax Return every year (unless it is a non-profit organisation and the Director does not receive any pay or benefits)
- Engaging other entities to provide goods and services to the company, yet Directors are still legally responsible for your company's records, accounts and performance

Directors may be personally liable for their company's business liabilities and be fined, prosecuted or disqualified as a company director if they do not fulfil their statutory duties as a Director.

Types of company

Limited by shares

Most limited companies are 'limited by shares'. This means that the shareholders' responsibilities for the company's financial liabilities are limited to the value of shares that they own but haven't paid for.

Directors are generally not personally responsible for company debts, yet may be liable in specific circumstances, for example, if they have provided a Director's Guarantees against secured loans.

Private company limited by guarantee

Directors or shareholders financially back the organisation up to a specific amount to protect their liability exposure.

Public limited company

The company's shares are traded publicly on a market, such as the London Stock Exchange. You can also consider setting up a private unlimited company as an alternative legal structure. Directors or shareholders are liable for all debts.

3. Ordinary business partnership

In a business partnership, you and your business partner(s) personally share responsibility for the business and profits are generally shared between the partners where each partner pays tax on their share of the profits.

A partner doesn't have to be an actual person. For example, a Limited Company is deemed to be a legal person, and can also be a partner in a partnership. Further, it is worth noting that Scottish partnerships (known as 'firms') have a 'legal personality' separate from the individual partners.

Partners are personally responsible for their share of:

- Business losses
- Creditor accounts (trading liabilities) incurred

A 'Limited Partnership' or 'Limited Liability Partnership' can also be created if you prefer not to be personally responsible for a business' losses.

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4. Limited partnership and limited liability partnership

A partner's liability for business debt differs depending on whether they are a Limited Partnership or Limited Liability Partnership (LLP). Partners can share in the business' profits whereby each partner pays tax on their share of the profits.

Limited partnerships

The liability for debts that can't be paid in a Limited Partnership is shared amongst the partners.

Partners' responsibilities differ as:

- 'General' partners can be personally liable for all the partnerships' debts
- 'Limited' partners are only liable to the extent of the amount they initially invest in the business

General partners are also responsible for managing the business.

Limited liability partnerships (LLPs)

The partners in an LLP are not personally liable for debts the business cannot pay. However, they are liable up to the amount of money they invest in the business.

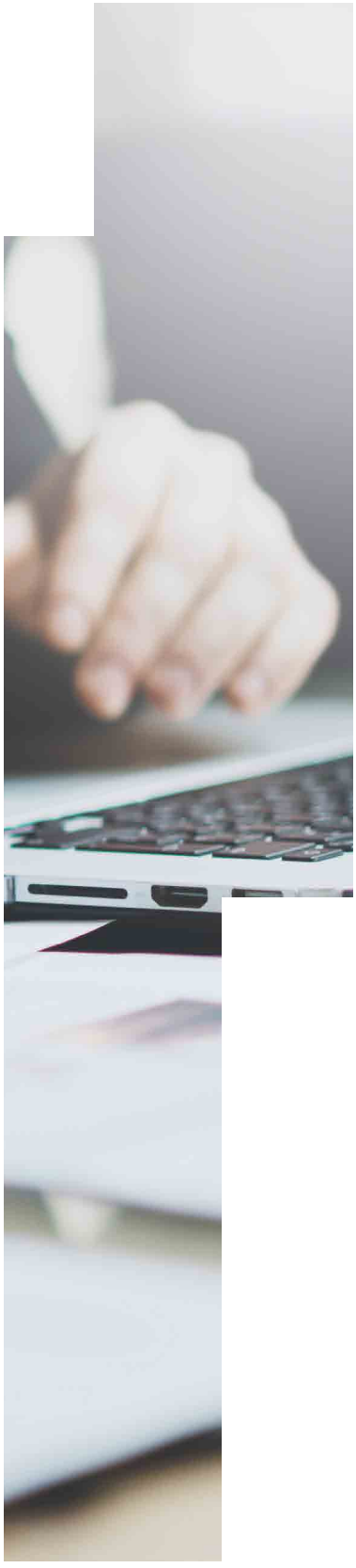
Partners' responsibilities and share of the profits are set out in an LLP Agreement. 'Designated Members' have extra responsibilities.

5. Unincorporated association

An Unincorporated Association is an entity set-up through an agreement between a group of people who come together for a reason other than to make a profit, eg a voluntary group or a sports club.

You don't need to register an Unincorporated Association and it does not cost anything to set up. Individual members are personally responsible for any debts and contractual obligations.

If the association does start trading and makes a profit, you'll need to pay corporation tax and file a Company Tax Return in the same way as a Limited Company.



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Further considerations when choosing a business structure

1. Registration requirements

Private limited companies and LLPs are required to register with Companies House while sole traders and partnerships are not.

Registering a private limited company

The easiest way to register is using the Companies House Web Incorporation Service. You can register for corporation tax at the same time. Alternatively, you can use formation agents to help you register. Online registration includes completing the Form IN01.

This contains details of the proposed company name, registered address, at least one director and initial share capital of the company. You must also submit a memorandum and articles of association. The memorandum is a one-page document signed by the person (or people) incorporating the company, indicating that they agree to subscribe for shares in the company.

The Articles of Association should be in the form prescribed by the Companies Act 2006, unless you have had a bespoke version prepared by your legal advisers. Once registered, your website, letters and emails must show the full company name, registered number, place of incorporation and registered office address.

Registering a limited liability partnership

The LLP must be registered with Companies House. You can also do this via the Companies House Web Incorporation Service. Online registration includes completing the Form LLIN01. This contains details of the name, address and members of the LLP.

2. Corporate governance and day-to-day operations

A formal governance structure is required to operate the business and is to be set out in the company's Articles of Association and any related shareholders' agreement (for a Private Limited Company) or LLP agreement (for a LLP).

In operating a company, there must be a clear demarcation between the activities and responsibilities of the Directors and the Shareholders. This can require discipline in practice, particularly where Directors and Shareholders are the same people.

From a liability, risk and governance perspective, you must make sure that the decisions of Directors and Shareholders are properly documented through appropriate Minutes and Resolutions, and that the statutory books and other records of the company are kept up-to-date and in good order.

3. Costs

The following costs generally apply to creating a new business structure:

Legal fees

If you set up a Private Limited Company or LLP, to limit legal exposure, you may elect to engage legal advisors to prepare the Constitutional documents and complete the incorporation forms for filing with Companies House.

Filing fee

A small filing fee will generally apply when registering a new business with the Companies House. In addition, companies and LLPs also have to prepare and file ongoing notifications with Companies House regarding corporate matters, including changes to the Board of Directors and issues of new shares or membership interests, which also incur filing fees.

Administration costs

Private Limited companies and LLPs have greater administrative costs. For example, they are obliged to prepare and file accounts and annual returns, and incur fees in doing so.

4. Further investment and exit

Shares in Private Limited companies and membership interests in LLPs are not fixed; they can be transferred to other people and new shares/interests can be issued to raise further capital. This can help attract third-party investment and make it easier for investors to exit the company, for example, by selling the business outright to a third party or opting for a public listing.

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Bookkeeping and accounting

Keeping up-to-date and accurate accounting records is more than a legal requirement. It's key to keeping track of your expenses and income and understanding where your business stands financially.

What is bookkeeping and accounting and why is it important?

Bookkeeping simply means keeping a record of your company's financial transactions. This includes sales, expenses, salaries and other bank transactions. Your bookkeeping records form the basis of the statutory financial statements you submit to Companies House annually.

You can also use your records to produce management accounts focusing on specific areas. For example, you can prepare a breakdown of where your revenue is coming from or a comparison of budgeted expenses against actual expenses.

Should I do the bookkeeping myself?

Doing your own bookkeeping at the beginning can be a good idea. You'll learn a lot about your business and save money. The drawback is that it can take up a lot of time. You might also miss out on tax benefits or fail to meet all your legal requirements simply because you don't know about them.

As you grow, outsourcing your bookkeeping and accounting to an accountant is an option. With outsourcing, you can be confident of meeting all your compliance requirements and of taking full advantage of any potential tax incentives. You are also free to focus on developing your business. The downside is that this is more expensive than the DIY option and not all accountants will be specialists in your niche.

Outsourcing doesn't always scale up well as your business grows, so this might be a temporary measure before you employ a finance team. In an established business, this would typically include a Finance Controller (FC), a Chief Financial Officer (CFO) and team of accountants with responsibility for different financial areas.

When employing a FC, FD and/or CFO to establish a finance function for you, you should consider the following key points:

- What support you expect from the finance team to help with the evolution of your business
- Defining and prioritising finance related policies and practices
- Outlining the nature, timing and extent of reports or other information that you and other stakeholders of the business (e.g. banks) would require from the finance team
- What are the key controls that would ensure smooth running of operations and how best to implement them
- What resources (e.g. human, systems) and support (e.g. external advice) would the finance team need as it tackles various challenges
- What legal and regulatory (including tax) requirements are applicable to your business and the role the finance team will play in ensuring compliance

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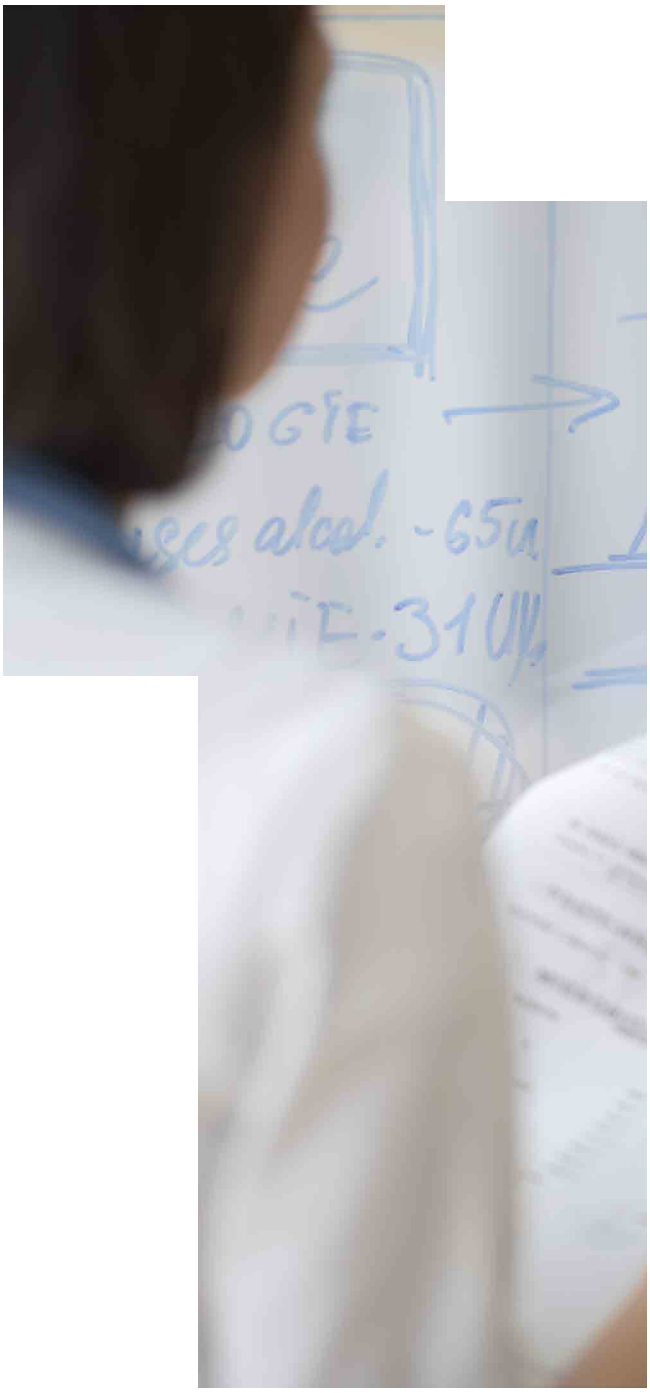
What does bookkeeping and accounting involve?

Here's a list of the tasks that you typically need to get done.

What needs to be done	Frequency
Bookkeeping Posting transactions into accounting system Paying bills Chasing outstanding debtors Payroll processing	Daily/Weekly
Prepare management accounts Profit and loss Balance sheet Cash flow forecast	Monthly/Quarterly
Submitting VAT returns	Quarterly
Preparation of statutory financial statements	Annually
Corporation tax calculations	Annually
Claiming tax reliefs	One off



What sort of accounting software can I use to help?

You can choose between desktop accounting software such as Sage or cloud-based online software. Desktop-based software is generally more cost effective; there's just a one-off initial cost while for cloud-based software you pay a monthly fee.

However, more businesses are switching to online solutions like Xero because they like the way these solutions can automate a lot of accounting tasks. For example, you can pull together a record of all your purchases into a VAT return. You can also sync your bank account with your accounting system so that your banking transactions are automatically posted to the right category in your accounts.

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Bookkeeping and accounting

Keeping accurate accounting records is key to understanding where your business stands financially.

What else should I know before I get started?

- Accrual accounting
- Matching principle

1 Accrual accounting

There are two methods of accounting: cash accounting and accrual accounting. With cash accounting, you record transactions when cash is actually exchanged. With accrual accounting, you record transactions when they occur rather than when money changes hands. This gives you a much clearer picture of the financial health of your company.

In practice, most SMEs use cash accounting for internal use and switch to accrual accounting when they prepare their annual statutory financial statements. Accrual accounting must be used for statutory financial statements to adhere to accounting standards.

Here's an example of how accrual accounting works. You've hired a freelance developer in September and estimate she has worked 10 hours in the month for an hourly wage of £100. At the end of September, she hasn't submitted her timesheets so you don't pay her, but you should record what you estimate to be the right expense of £1,000.

2 Matching principle

So that your accounts give an accurate picture of how you are putting money to work in your business, you also have to match the cost of buying an asset with the period when you will use it to generate income. For example, when you buy a tablet, you expect it to help drive your revenue for as long as the tablet lasts. So, in your accounts, you spread the initial cost of the tablet over that period. This is where the concept of capitalisation and depreciation comes into play.

Let's look at the example in more detail. Say you have bought a tablet for £1,200. As you expect the tablet to also drive future revenue, you are allowed to capitalise it in your accounts and then depreciate it according to its useful life of say, two years. This is to say that you can include it as an asset in the balance sheet and then spread the costs over its useful life of two years. Instead of incurring a loss of £1,200 when you make the initial purchase, only £50 is charged to your monthly profit and loss until the tablet is fully depreciated.

This is also one of the reasons why your accounting profit can be very different from your cash position. When you buy the tablet you will have £1,200 less cash, but your accounts will only show £50 of loss in the month.

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Record-keeping

Regardless of what company structure you adopt, you will have to keep accurate company, accounting and tax records. Penalties for not keeping proper records are high and falling foul of the law does your company's reputation no good either.

Companies House and HMRC have a right to inspect your records at any time so store them in a safe place, like your registered office address. You can keep the original documents or scan and store them electronically.

There is significant overlap between the information that you need to maintain for Companies House (if you are registered) and HMRC. Generally, the records you need to keep for HMRC are also applicable for Companies House.

What records do I need to keep?

HMRC requires you to keep an extensive set of records to back your tax returns. How long you need to keep the records for varies depending on whether they're to do with corporation tax or Pay As You Earn (PAYE).

Record-keeping for corporation tax

1 What records do I need to keep for corporation tax?

Records for corporation tax include sales invoices, purchase receipts and bank statements. Basically, you must keep hold of all the documents that provide evidence of your income, expenses, assets and liabilities.

The HMRC guide to corporation tax (see page 74) includes a complete list of records you need to keep.

2 How long should I keep corporation tax records for?

For corporation tax, you need to retain your records for six years from the end of your accounting period.

3 What's the penalty for not keeping records for corporation tax?

Not keeping records to support your tax return could see you pick up a penalty based on a percentage of the extra tax due:

- If HMRC finds a mistake in your return that's happened because you haven't kept adequate records, you could pay a penalty of up to 30% of the extra tax due.
- If you've made a deliberate misstatement, you could pay a penalty of up to 70% of the extra tax due.
- If you've tried to conceal the misstatement, you could pay a penalty of up to 100% of the extra tax due

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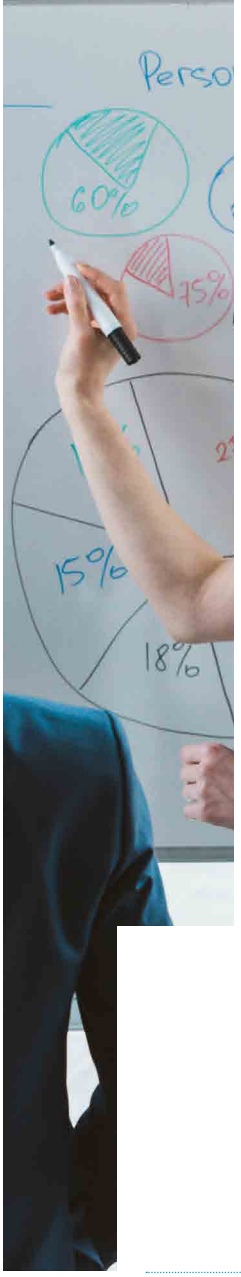

Record-keeping for PAYE

1 Why do I need to keep records for Pay As You Earn?

You need to keep accurate payroll records so HMRC can make sure that:

- You and your employees are paying the right amount of tax and national insurance contributions (NIC)
- Your employees are getting any statutory pay they're entitled to
- You're complying with the law

2 What records do I need to keep for PAYE?

The records you need to keep include:

- Pay, tax and NIC records
- Statutory Sick Pay records

The HMRC guide to PAYE record keeping (see page 74) gives full details of the records you need to keep.

3 How long should I keep PAYE records for?

You need to keep records for the current and previous three tax years.

4 What's the penalty for not keeping accurate PAYE records?

Failing to keep accurate records could see you pay a penalty of up to £3,000.

HMRC requires you to keep an extensive set of records to back your tax returns. How long you need to keep the records for depends on whether they're to do with corporation tax or Pay As You Earn.

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Section 1
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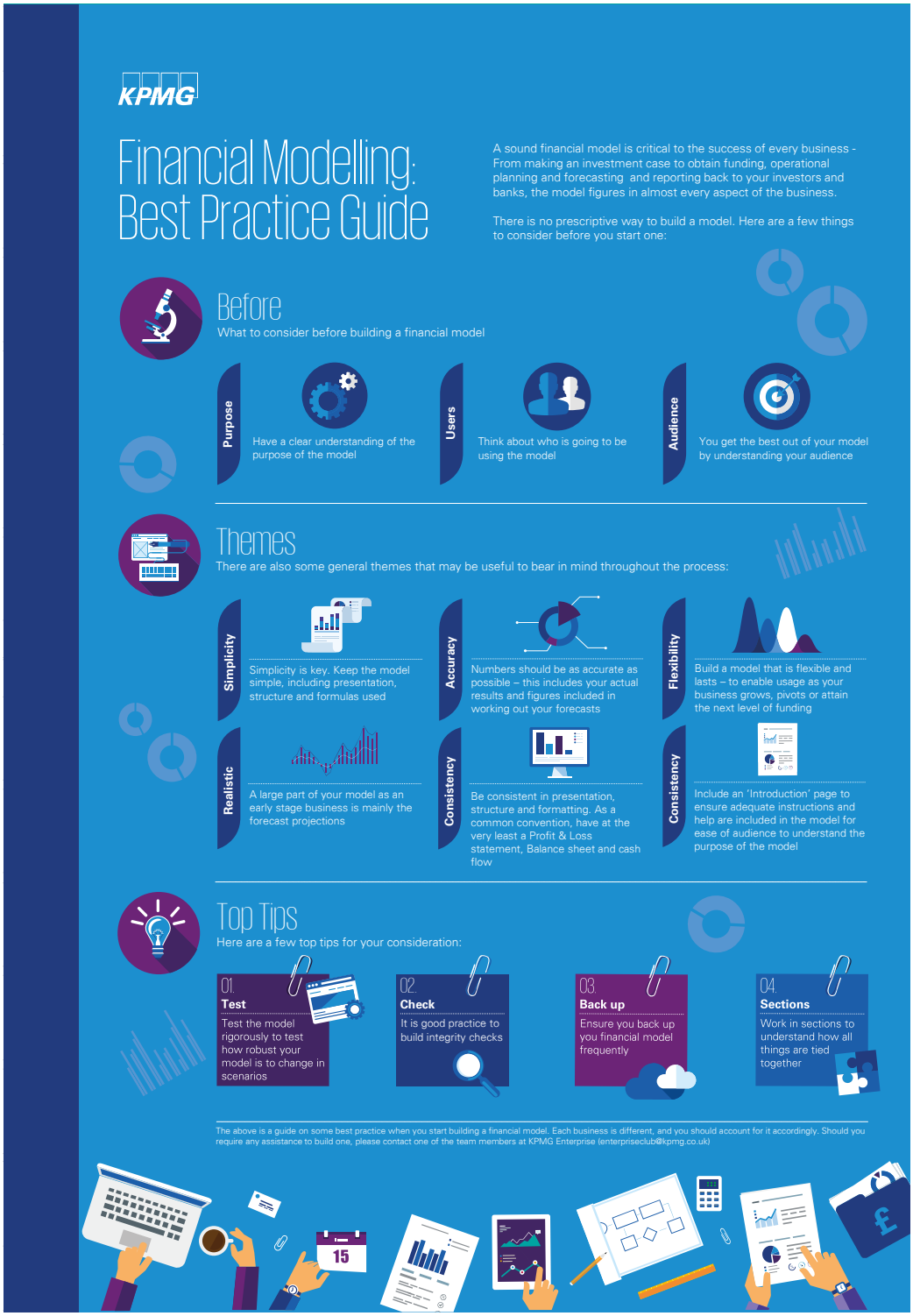
Building a financial model

Financial modelling might sound like the stuff of high finance. In fact, it's a practical tool that can help you make smarter decisions about your business' future. This can include anything from working out when you're likely to become profitable to understanding how different funding options could affect your business.



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1 Integrity

Best practice is to produce full financial statements (profit and loss, balance sheet and cash flow forecast). Make sure your outputs are in line with accounting standards: your balance sheet should balance and your assets should equal equity plus debt. Don't use balancing figures or fudges.

Use checks to ensure internal consistency of data. Try to set up a network of error checks, so that if there is an issue on one sheet, it affects other sheets.

2 Simplicity

Keep your model simple and formulas short. Avoid unnecessarily complex functions and macros wherever possible.

Don't conceal rows or columns as it is not immediately obvious to the user that there is information hidden.

How can I tell if my model does the job?

Models are risky by nature, so testing is key. According to the FAST Standard Organisation (FSO), at least £70 million is wasted each year because employees cannot interpret the different financial models used by different departments. A full audit of your model can help cut out problems like this.

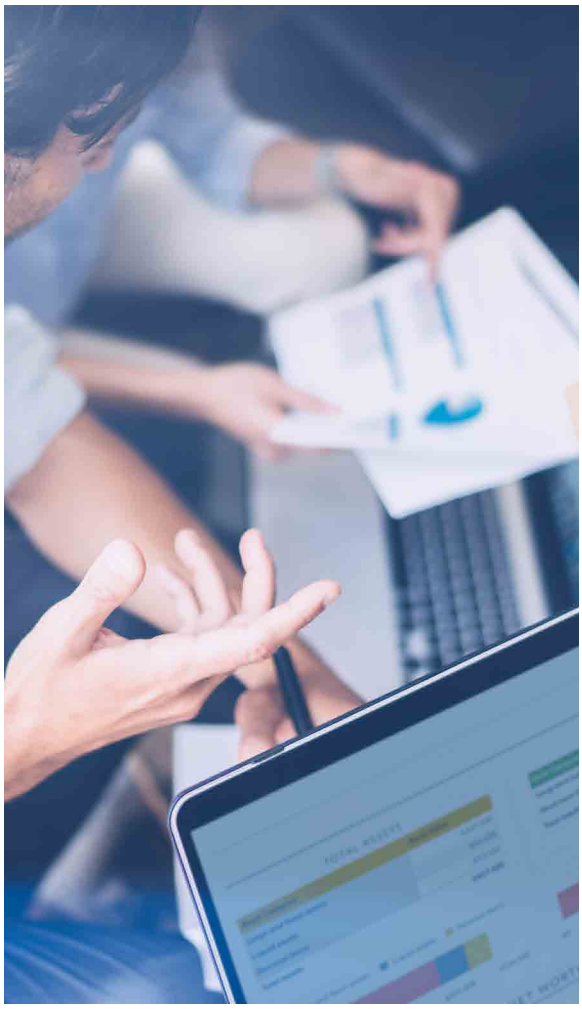
- Get a peer or friend to give the model a robust work-out
- Analyse every unique formula
- Give your model to the people who will be using it and ask them if it produces the outcome they want to see

Am I ready to start using my model?

Yes. But don't forget that while every model is different, they all have one thing in common: rubbish into the model equals rubbish coming out. Make sure the assumptions you feed into your model are reasonable and can be justified.

Clear outputs and analysis are also critical when setting up a financial model so that you can quickly understand the results and interpret what the model is telling you. Having an integrated set of financial statements is one thing, but actually a lot of validating and finessing a model comes from understanding the operational drivers of a business, and what is happening to these over time.

Clear outputs and analysis are also critical when setting up a financial model so that you can quickly understand the results and interpret what the model is telling you. Having an integrated set of financial statements is one thing, but actually a lot of validating and finessing a model comes from understanding the operational drivers of a business, and what is happening to these over time.



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Writing a business plan

A clear and well laid-out business plan is crucial when running a business – be it for raising finance and mapping out growth journeys or budget planning and forecasting. You'll find that the plan will change often but preparing one is still a good way of organising your ideas and giving the business direction.

1 Executive summary

The executive summary gives an outline of the business plan. It's the first thing people will see, so it should include key facts and, most importantly, tell the reader what you want from them (don't bury your key message in a table on page 5!).

It should cover the business concept, financial requirements, current business position and major achievements.

2 Business overview

Start by describing your industry and where your business fits in. When you describe the industry, it's useful to discuss the present and future direction. Including information on markets and similar products in the industry will help you gain an in-depth understanding of the market and the competition and provide investors with the knowledge they need. Make sure any industry statistics you use are based on reliable market data as this adds credibility. Indicating your sources in footnotes is an easy way to clarify this.

When you describe your business, focus on its structure. What type of business is it? Manufacturing, software, consumer goods, wholesale, retail? Explain who the target customers are, what distribution channels you will use, where you currently operate, what problem you are solving and what support systems, such as advertising, promotions and customer service you have or plan to develop.

Next, talk about the products or services you offer. Make your description concise and to the point, but give the reader enough detail to understand where the competitive edge lies.

Add weight to your description by emphasising how your product or service is unique or different from current products in the market, especially if the current products are successful.

3 Sales & marketing strategy

The analysis you do to develop your sales & marketing strategy will force you to get to know all aspects of your market. This will help you define your target market precisely and position your business to grow.

Key questions your sales & marketing strategy should cover include:

- What is your overall market?
- What is your projected market share?
- Where are your customers based?
- How do you want to position your business in the market?
- What is your pricing strategy?

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- What distribution channels will you use?
- How do you plan to promote the product/service?
- What is the potential for sales?
- Who is your competition and how are you different from them?

4 Operations and management

Think of the operations and management plan as the plan for how your business will function day to day. There are two key areas you need to address: the organisational structure of the company and the capital and expense requirements of the operation.

Organisational structure

The organisational structure is often used as the basis for projecting salary costs (usually the largest operating expense for a company), so this part of your business plan is key to understanding how much money you will need to stay afloat.

The organisational structure is critical to the formation of financial statements, which are heavily scrutinised by investors. So make sure your structure is well defined and realistic given the parameters of the business.

Capital and expense requirements

The idea is to capture all your capital needs for large purchases and all your on-going expenses in order to estimate how much it will cost to run the business.

5 Financial information

Investors will look carefully at the financial information you include, not only to see how the business is doing but to find out how much of a handle the management team has on the business. Including detailed financial forecasts and showing that you have considered different scenarios and sensitivities will demonstrate to investors how competent your management team is.

For early stage businesses, the financial information included in a business plan typically consist of a cash flow statement only.

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Managing working capital

Not having enough capital to cover everyday running costs is the number one cause of failure for SMEs. So managing your cash flow needs to be one of your top priorities.

For a typical business, everyday costs include payments to utility providers and suppliers, and business overheads like salaries and rent. Making sure the cash in your bank account matches your working capital needs is the essence of good working capital management.

Where do I begin?

The key to managing working capital is budgeting. Make sure you have a firm plan in place showing how the business will maintain sufficient cash flow. Use the tips highlighted in 'Building a financial model' (page 14). The plan is to identify potential hazards early enough to give you time to put things right.

Think about whether your approach to cash management gives you a clear enough picture of how money is flowing in and out of your business. Can you forecast cash flow for both the short term and the medium term? How accurate is your forecasting? And are there hidden risks and dangers that need to be brought to light?

Performing a cash flow forecast on a regular basis is a useful way to identify your capital needs. Once you understand the financial cycles of your business, you can set aside the right amounts of working capital to meet your current goals and prepare for future ones.

How can I improve cash flow?

Start by thinking about how long it takes you to receive the money you're owed. If you haven't collected the cash for a sale, you haven't completed the sale.

To streamline cash flow processes, send out invoices as soon as possible after you've sold a product or delivered a service and keep the time you have to wait for payment short.

Collecting debt is key – the longer it takes for debtors to pay you, the longer you have to finance that sale.

Don't forget that cash flow is about cash that goes out of your business as much as about cash that comes in. Identifying areas where you can reduce outgoings will help you keep more cash in your business.

How do my credit terms affect my cash flow?

Negotiating the right credit terms with your customers is vital to ensuring a regular cash flow. Credit terms should be set for customers based on their financial strength and their history. Keep these terms under constant review as one large bad debt could sink the business.

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When it comes to paying suppliers, try to stagger your payments to suppliers and negotiate more favourable payment terms so that you can keep cash in the business for as long as possible. Ideally the credit terms you negotiate with suppliers should be longer than those you grant to customers.

A good example would be 30 days for suppliers and 15 days for customers. This way, you'll receive the cash from sales 15 days before you need to pay debts. This may not always be possible for an SME but it's a good model to aim for.

How can I free up cash locked away in invoices?

Invoice factoring and invoice discounting are two options for freeing up working capital locked away in invoices.

Invoice factoring

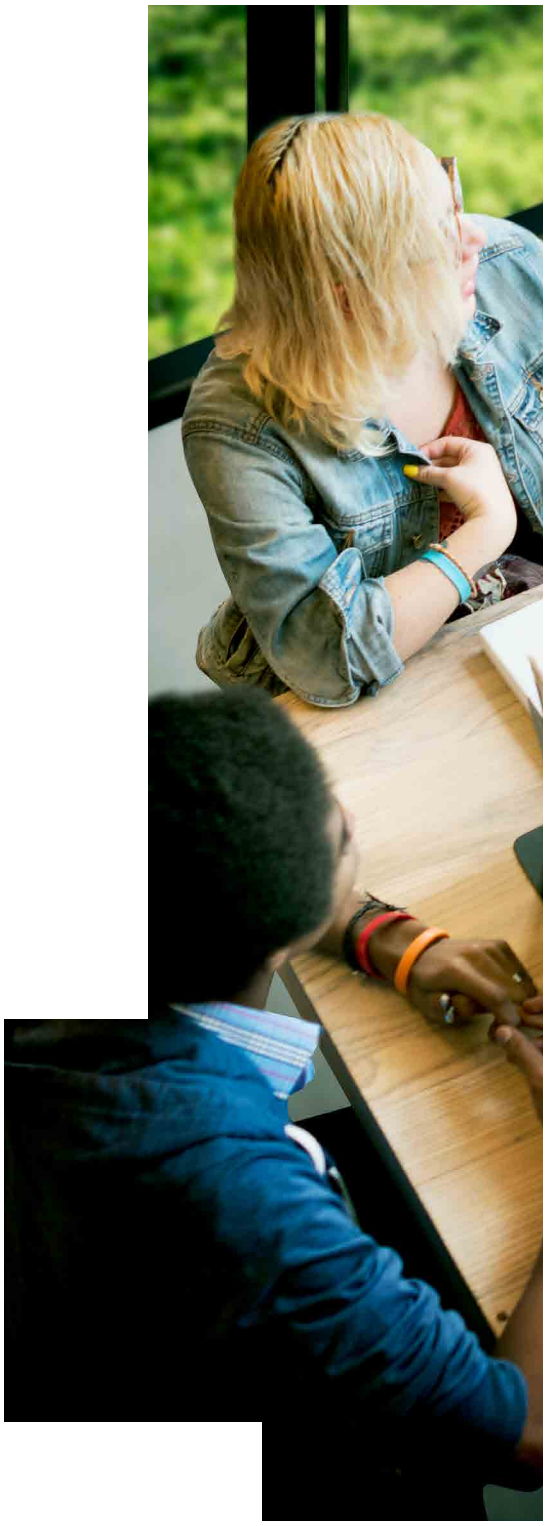
'Invoice factoring' involves an invoice financier managing your sales ledger and collecting money owed by your customers. The financier will make most of the invoice value (around 85%) available to you up front. The remaining money (less interest and fees) will be made available to you once the financier has collected from the customer.

Invoice discounting

Invoice discounting is when an invoice financier lends you money against your unpaid invoices, but doesn't manage your sales ledger or collect debts on your behalf. Invoice financiers tend to focus on commercial invoices, so if you sell directly to individual customers, you probably won't be eligible.

With invoice discounting, you usually receive an agreed percentage of the invoices' total value. As invoices are paid, the money goes to the invoice financier, which reduces the amount you owe them. This means you can then borrow more money on invoices from new sales if necessary.

Fees for invoice discounting tend to be a little lower than for invoice factoring because the financier is not managing your ledger.



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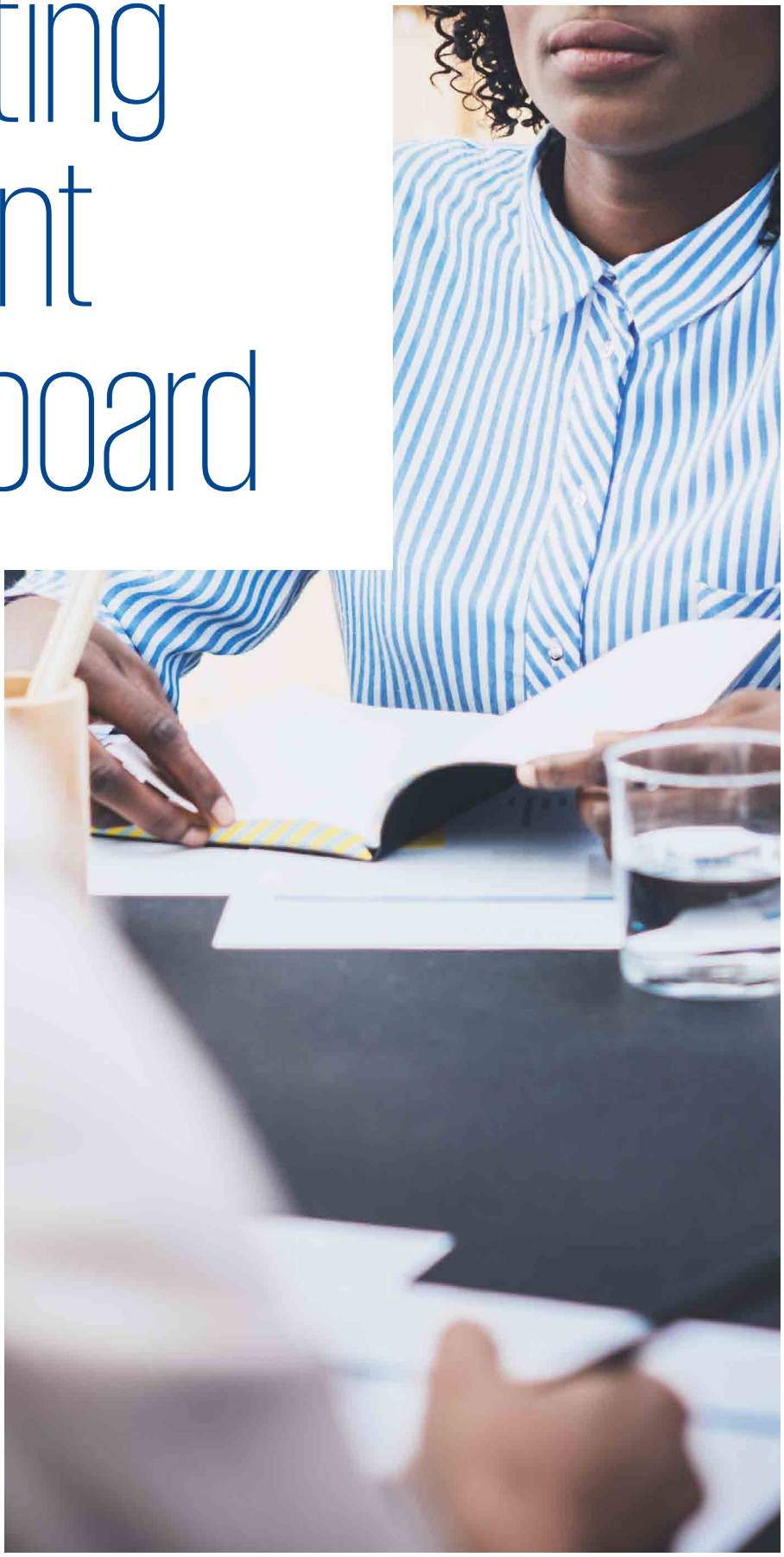
Section 2

Getting talent on board



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Finding the people you want on your team is exciting. Handling the contractual and admin requirements that go with becoming an employer, not so much.

The key is to get the right processes and documentation in place from the start. With a system that runs smoothly, keeps you compliant and protects your interests, you'll be free to focus on putting your team's talents to work.

This part of the guide can help you:

- Decide what type of contractual arrangement to use
- Build a remuneration package that works for your business and your people putting your team's talents to work
- Get clear on how immigration rules affect you as an employer
- Understand when and why you need to report payroll information to the tax authorities
- Steer clear of problems if you need to dismiss an employee

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Section 2
Getting talent on board

Hiring your team

You've found someone who's right for your business and you want them to come and work with you. But first you need to decide what type of arrangement or contract to offer.

When it comes to hiring your team, the main method is by engaging them as either: employee, worker or self-employed contractor. Other options include using temping agencies to supply agency workers, engaging interns, casual workers or zero hours workers directly. Most businesses use employees or self-employed contractors, so these are the two options we're focusing on.

Taking on employees:

- How does it work with employees?
- What rights do employees have?
- What are the pros of the 'employee' option?
- What are the cons of the 'employee' option?
- How do I manage my payroll?
- What's the easiest way to report to HMRC?

1 How does it work with employees?

Employees have the greatest range of employment rights and protection, but when you take someone on as an employee, you also get the most control over how, when and where they work.

If you take someone on as an employee:

- They must make themselves available to work and carry out the work personally (they cannot send a substitute)
- You must pay them for their work
- The employee must comply with your standards and instructions

2 What rights do employees have?

Employment legislation gives employees a range of rights and protection. The most significant are:

- To receive;
  - at least the national minimum wage
  - statutory sick pay when absent due to illness
  - statutory maternity, paternity and adoption leave and pay
  - statutory minimum notice period
- To not work (on average) more than 48 hours a week unless they opt out
- To receive statutory sick pay when absent due to illness
- To receive a minimum number of days paid holiday (5.6 weeks for a full time employee)
- The right not to be discriminated against on the basis of a protected characteristic*

(*age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership and pregnancy and maternity.).

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3 What are the pros of the 'employee' option?

You can control how, when and where employees work.

Intellectual property created by an employee while they are working for you will usually belong to your business (rather than to that person).

While they're employed by you, employees owe you a strong duty of loyalty and this can stop them doing things that may harm the business.

You may be able to (subject to appropriate contractual documentation) stop employees using confidential information and restrict them from engaging in competitive activities once they've stopped working for you.

4 What are the cons of the 'employee' option?

Typically the rate of pay will be fixed (e.g. an annual salary) and you will have to pay it regardless of the work done.

You pay for all the equipment and facilities employees need to do their job.

You are responsible for collecting income tax and national insurance contributions (NICs) on behalf of your employees.

You may have to follow certain disciplinary and performance processes and may face unfair dismissal or other employment-related claims.

5 How do I set up as an employer?

Check the person you want to employ has a legal right to work in the UK by following the government's step-by-step guide (see page 74). If it looks like it could be complicated, make sure you speak to an immigration specialist.

Send the employee their employment contract. If you will be employing someone for more than one month, you must provide a written statement of employment within two months of the employee starting work. GOV.UK has clear rules about what the written statement should include (see page 74).

Agree to pay the employee at least the national minimum wage. Check the current rates at GOV.UK (see page 74).

Get employers' liability insurance. Your policy must cover you for at least £5 million and come from an authorised insurer. Don't ignore this one – you can be fined £2,500 every day you are not properly insured.

- Register as an employer with HM Revenue & Customs (HMRC). You can do this up to four weeks before you pay your new staff. Use the HMRC guide on how to register (see page 74).

6 How do I manage my payroll?

Once you've taken on your first employee, HMRC wants to know when and how much you're paying them. Under a new approach, known as Real Time Information (RTI), you are likely to have to make a report to HMRC every month.

Since RTI was introduced in April 2013, even if your company has only one employee and there is no tax/NIC due, you are still required to report payments made to employees to HMRC when or before the payments are made.

RTI was brought in to facilitate a universal benefits system rather than for tax purposes. To implement universal benefits, the government needs an up-to-the minute picture of what every individual earns for each pay period during the year.

7 What's the easiest way to report to HMRC?

To make your reports to HMRC, get the free basic payroll software from HMRC (see page 74) or choose payroll software from a commercial supplier.

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Self-employed contractors

Using self-employed contractors:

- How does it work with self-employed contractors?
- What rights do self-employed contractors have?
- What are the pros of the 'self-employed' option?
- What are the cons of the 'self-employed' option?
- How do I engage someone on a self-employed basis?

1 How does it work with self-employed contractors?

- Self-employed contractors provide services to your business. You can engage a self-employed contractor directly or you can have a consultancy agreement with a service company set up by the contractor to provide services.
- Whether someone who works with your business is genuinely self-employed can be a contentious issue. HMRC has a helpful employment status indicator (see page 74) you can use to check this. The important thing to note is that the practical arrangements trump the legal form of the contract.
- If you engage someone on a self-employed basis:
- You are not obliged to offer that person work.
- That person is not obliged to accept any work you offer (if they accept the work, they can carry out the services personally but they can also supply a substitute to provide the services).
- That person can choose when, where and how they work, meaning you have less control over the arrangement.

2 What rights do self-employed contractors have?

- Self-employed contractors have fewer rights than employees.

3 What are the pros of the 'self-employed' option?

- The relationship between you and your self-employed contractor will depend on the type of agreement you have. Typically:
  - You agree fees, expenses and timeframes for delivery up front. There are no extra employment-related costs to pay.
  - You only pay fees when the job is finished.
  - If you're not happy with the work, you can ask the contractor to sort out the problem at their own expense.

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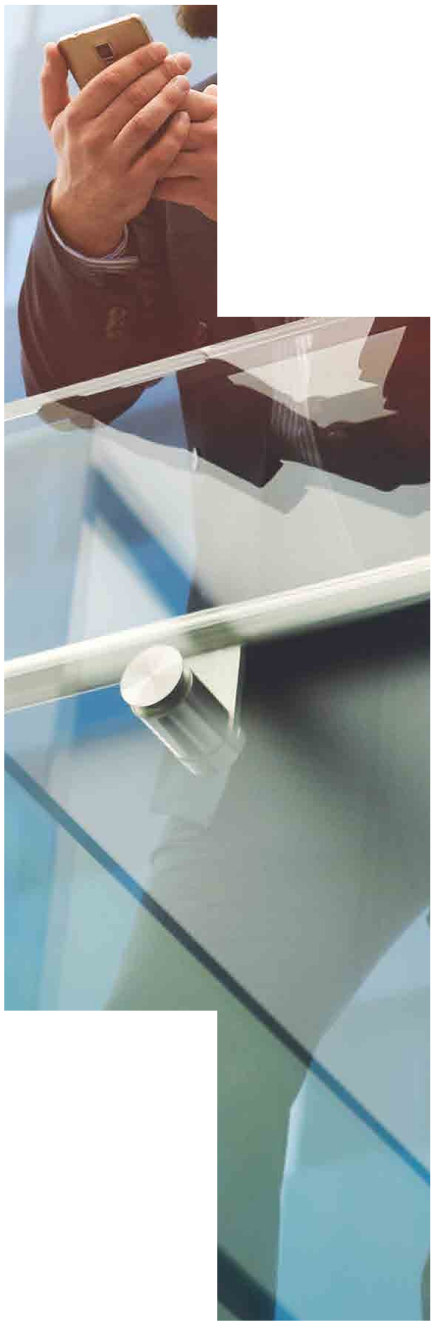

- Self-employed contractors are responsible for providing and paying for any equipment and materials that they need to provide the services they offer.
- Self-employed contractors are responsible for paying income tax and NICs on their earnings. If their earnings go above a certain limit, they must register for VAT.
- It is worth noting that contractors may be considered employees under IR35 rules and hence be treated like any other employee of the company.
- You agree up front what will happen when the contract ends.
- The contractor is unlikely to be able to bring most employment claims but could still bring a breach of contract or (in certain circumstances) a discrimination claim.

4 What are the cons of the 'self-employed' option?

A self-employed contractor is unlikely to work exclusively for your business.

They may not be available to provide the services when you need them (particularly if they have clashing commitments with other businesses).

Self-employed contractors will own any intellectual property they create while they are working for you unless you have an agreement stating otherwise.

Self-employed contractors aren't really integrated into your business so they're likely to be less loyal than employees.

5 How do I engage someone on a self-employed basis?

We suggest that you send the prospective contractor (or service company) an agreement setting out the terms and conditions of the engagement and ask them to sign it. As a minimum, the agreement should include:

- Details of what services the person will be providing
- How much they'll charge
- When the work needs to be done by
- Details of any standards they must follow when they're working for you
- Terms covering confidential information and intellectual property and termination
- Ask to see a copy of the contractor's insurance to make sure they're covered if any claims arise from the engagement

A self-employed contractor is unlikely to work exclusively for your business.

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Incentivising your team

Deciding how much you need to pay to get the right people on board can be tricky. This is because potential candidates will be looking at a whole range of factors besides the actual cash on offer.

Pay is about more than getting someone to accept a job offer. It's about motivating your workforce too. How can you put together a package that gets people giving their best and driving your business in the right direction? Should shares in your company be part of the offer?

Pay package considerations:

- How do I decide how much to offer?
- Should shares be part of the package?
- How can I work out the total cost of providing the package?
- What else do I need to think about?

1 How do I decide how much to offer?

Be clear on your business objectives and how this person will help you meet them. The more essential this person is, the more you would expect to pay them.

- Would it be easy to find someone else with the same talents or are this person's skills hard to come by?
- How can you link remuneration to how well this person performs in the job and to the performance of the business as a whole?
- What could this person expect to get in the market for a similar role? How much do they think you're going to offer them?
- Are they interested in this job mainly for the money or are they attracted to the role and your company for other reasons? For example, do they identify with your business and its purpose? Will they have the chance to develop new skills? Do they love the feel of your workplace?

2 Should shares be part of the package?

As a startup, cash is often limited. Giving shares in your company or setting up an employee share option plan is one way to attract the talent you want without draining your cash resources.

But think carefully about the pros and cons of providing shares to employees. Consider all your choices before deciding on the final package. It's better to plan ahead than to make a rush decision that will be difficult (and potentially costly) to change later.

3 How can I work out the total cost of providing the package?

If you're planning a remuneration package that includes shares, make sure you understand how much it will cost you to offer this.

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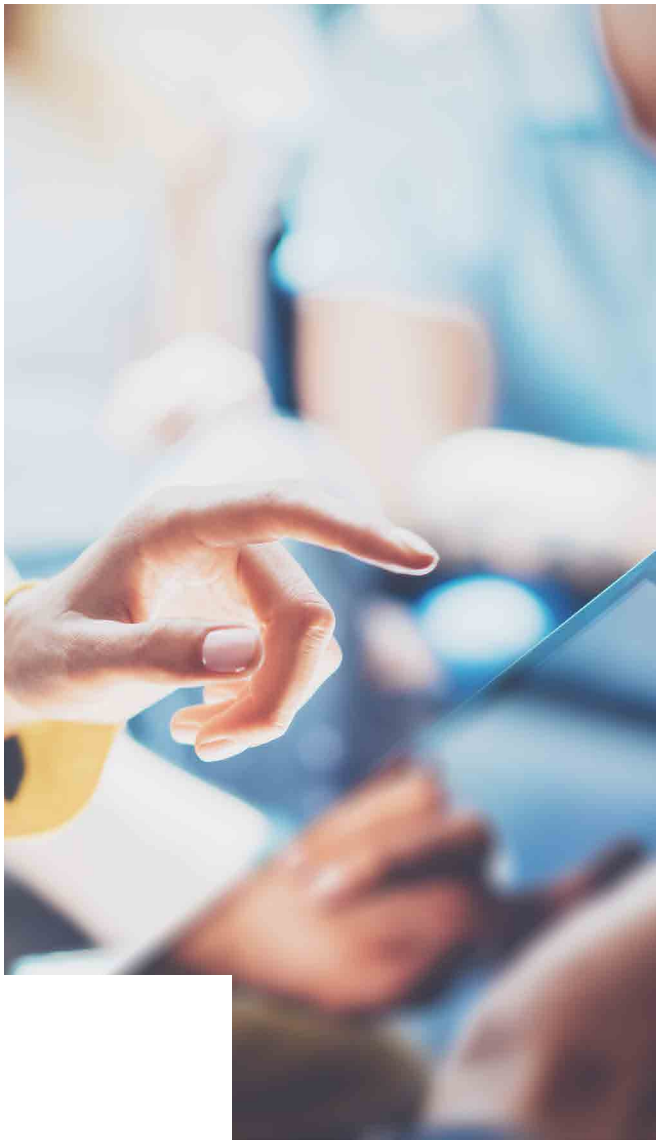

Work out:

The cost of the package you want to offer:
This should include the amount you will pay your employee and the cost of employer's NICs. Take into account any corporation tax deductions that might be available.

The cost of tax, legal and accounting advice:
You'll need professional advice to set up a share scheme, including professional drafting of any legal or employee communication documents. Are these just set-up fees or ongoing fees? Can you consider them as an initial investment that can be duplicated in the future for no or low cost?

Administration costs:
These will include costs involved in monitoring the terms of any deferred remuneration or benefits plan, ensuring employees receive the right amounts, in the right form, and making sure this is shown correctly in the accounts and to the tax authorities.

4 What else do I need to think about?

Is the proposed package easy for employees to understand? If your plan is too complex or difficult to put a value on, employees may not see it as a great deal.

What happens if employees leave the business, either voluntarily or involuntarily? Will they still hold onto their shares in your business?

How flexible is the package? If your business changes direction, will you be able to change the remuneration package so that it still has the effect you want?

Have you considered overseas implications for non-UK or travelling employees?

When you take someone on as an employee, you get the most control over how, when and where they work.

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Enterprise management incentives (EMI)

When your business is still starting up, you won't always be able to afford market-rate salaries. Introducing an employee share option plan such as an EMI scheme could be the answer.

EMI is designed to help small companies attract, retain and motivate key employees. It's also useful for SMEs looking for a way to get employees on board when the business is just getting going. With an EMI scheme, your employees can receive much more value than if they just receive cash salaries.

Getting to grips with EMI:

- How does EMI work?
- What are the tax advantages of EMI?
- Can any employer introduce an EMI scheme?
- How easy is it to set up an EMI scheme?
- Can you show me an example?

1 How does EMI work?

An employee share option plan involves an employer giving employees a right to buy shares in the company for a specified price at a specified date or event in the future. For example, you can specify that employees may only 'exercise' their options after a certain period when certain criteria are met, when the business reaches a certain level of performance or when you sell shares to the public for the first time (an Initial Public Offering or IPO). The plan can be tailored to where your business is now and where it's likely to be in the future.

2 What are the tax advantages of EMI?

For employees:

- No income tax or NICs due when the option is granted.
- No income tax or NICs due when the option is exercised, provided the price employees pay for the shares is not less than the tax market value of the shares when the option was granted.
- Capital gains tax (CGT) due when the shares are sold, which is a lower rate than income tax and NICs.
- Entrepreneur's Relief will apply if the options (or the underlying shares) have been held for more than 12 months, (for disposals before 6 April 2019) and 24 months (for disposals after 6 April 2019) so the CGT rate is only 10%. In addition, there is an annual amount of capital gains that is exempt from CGT for each taxpayer (of £11,600 for 2018/19).

For employers:

- No liability to employer's NICs or duty to account for PAYE, as long as the option exercise is not subject to income tax (as above) or the shares are 'not readily convertible assets' (e.g. where there is no market to sell the shares).
- Corporation tax deduction is available for the amount of gains employees make when they exercise their options.

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3 Can any employer introduce an EMI scheme?

No. The company must be 'qualifying' and the employees must be 'eligible'. Also, the shares under option and the terms of the option must meet certain conditions. Plus, the option grant has to be notified to HMRC in time and in a specified form.

Some of the key criteria are:

- When you grant the option, your company must have gross assets of no more than £30m.
- At grant, your company must have fewer than 250 full-time equivalent employees (part-time employees are counted pro-rata).
- Any employees taking part cannot have a material interest in the company (that means they can't own 30% or more of the company on their own, through an associate or in combination with an associate).
- Participating employees must work at least 25 hours a week for the company or if less than 25 hours, they must work at least 75% of their remunerative time for the company. HMRC publishes full details of EMI (see page 74). It is very important that all the criteria required for a plan to be eligible are monitored for as long as the scheme is running. If the facts change or new investors come in, this could have an impact on your tax position.

2 How easy is it to set up an EMI scheme?

The rules around the criteria for EMI schemes and the impact of changes in circumstances are detailed and complicated, so it's vital to get tax/legal advice before you set one up.

Good advisers will make sure that you get a plan that meets your business objectives and is EMI compliant. There is no such thing as a 'one size fits all' plan.

5 Can you show me an example?

This example shows how the figures work at each of three key points in the process: grant, exercise, and sale.

Grant:

Anne is granted an option over 1,000 shares in XYZ Ltd in feb 2017. Anne only has the right to exercise her option if XYZ has an exit event. The tax market value of the shares of XYZ at grant is 50 pence per share and this is the price per share that Anne has to pay to acquire her shares on a future exercise. At grant of the option, there is no income tax or NIC charge for Anne to pay and no NIC or PAYE obligation for XYZ.

Vest and exercise:

XYZ has an exit event in February 2019. This means Anne can now exercise her right to acquire 1,000 shares in the company.

At the time of exercise, the market value of the shares is £20 per share. However, under the terms of the option, Anne only has to pay 50 pence per share to acquire them. As the exercise price is not less than the tax market value of XYZ at the time the option was granted, there is no income tax or NIC charge on exercises. Anne pays £500 to acquire 1,000 shares and XYZ can take a corporate tax deduction at this point for £19,500 and will receive £500 from Anne.

Sale:

Anne sells her shares as part of the exit event. Her gross gain is £19,500. If the annual exemption for CGT in 2018/19 is £11,700, therefore the amount of capital gains tax she will pay is £780 i.e. (£19,500 – £11,700) x 10%. This assumes she has not used up her annual exemption on other capital gains in the year.

In summary, Anne receives £20,000 for the sale of her shares and had to pay £500 to acquire them and £780 of capital gains tax. So, her net after-tax gain is £18,720.

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Checking employees' right to work

Today, the marketplace for talent is global. Specialists from around the world could have the skills your business needs – and you might want to bring them to the UK to be part of your success story.

But the rules about who has permission to work in the UK are strict and – to make things harder – always changing. As an employer, you need to stay up to date with the rules and stick to them.

Right to work: rules and responsibilities:

- What are my responsibilities as an employer?
- What happens if I break the rules?
- Who's allowed to work in the UK without restriction?
- Can I recruit someone who doesn't have permission to work in the UK?

1 What are my responsibilities as an employer?

It's illegal to employ someone in the UK if they do not have the correct permission to work or reside in the UK. As an employer you have a duty to prevent the employment of illegal workers. To protect yourself against any civil and/or criminal penalties, you should check that your employees, whatever their nationality, have permission to work and live in the UK.

In order to benefit from the protection against any sanctions, you must check each employee's documents before employment begins. You must ensure you check the correct documents in the correct manner. Keep a copy of the documents to prove you've made the check. Full details of which documents are acceptable are available from GOV. UK (see page 74).

2 What happens if I break the rules?

UK Visas and Immigration (UKVI) actively pursues employers who employ people without the correct permission to work.

If it is found that you have been employing illegal workers, you could be on the receiving end of civil and criminal sanctions, such as:

- Civil penalty of up to £20,000 per illegal worker
- 5 years' imprisonment and/or an unlimited fine

You may also face a potential downgrading or loss of your UK sponsor licence if you have one, and severe reputational damage as UKVI names and shames those businesses found to have been employing illegal workers.

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3 Who's allowed to work in the UK without restriction?

Generally, these are the people who have the right to work and live in the UK without any restrictions:

- People with full British citizenship.
- EEA nationals (at least until 31 December 2020, when EU free movement rights end due to Brexit).
- People who have indefinite leave to remain or permanent residency.
- British Overseas Territories citizens, those with the right of abode, and those holding an UK Ancestry visa.
- People outside these categories may have immigration documents that restrict the type of work they can do or the number of hours they are permitted to work. Check these documents before allowing them to work.

4 Can I recruit someone who doesn't have permission to work in the UK?

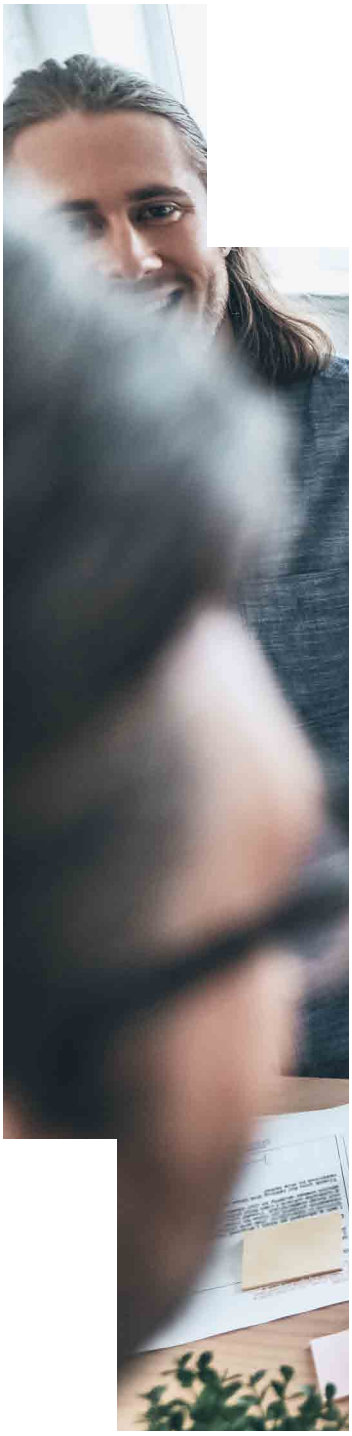
To recruit a non-EEA national who does not have permission to work in the UK, you can look at sponsoring them through the points-based system. This system is a route for bringing skilled workers to the UK.

First, apply for a sponsorship licence through the UKVI. You must fulfil the eligibility criteria for a licence and show that you will comply with the duties and obligations required by law.

Once you have a licence, you can issue certificates of sponsorship for jobs that are eligible for the scheme. When you employ migrant workers, you must offer them pay and conditions that are equal to resident workers.

Startups can take advantage of the Tech Nation Visa Scheme and the Exceptional Talent Visa to attract overseas talent. These schemes have been introduced by the UK government specifically to support the growth of the next generation of tech businesses in the country.

Don't forget to keep up with frequent changes to the rules to make sure you're on the right side of the law.



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Terminating employment

Sometimes you'll need to terminate an employee's employment – perhaps there is a reduced requirement to carry out work of a particular kind or there might be a conduct or capability issue. This is an area where it's really important to understand some key concepts and to follow a fair process.

Before you take any steps to terminate an employee's employment, make sure you get to grips with some of the basics of employment legislation. One particular area to understand is the difference between wrongful dismissal (a contractual claim) and unfair dismissal (a statutory claim).

Wrongful dismissal

Wrongful dismissal 'need to know':

- What is wrongful dismissal?
- How much notice should I give?
- What if I want to terminate employment immediately?
- How and when do I give notice of termination?
- Is the employee entitled to pay during the notice period?
- What happens if the employee brings a successful claim for wrongful dismissal?

1 What is wrongful dismissal?

If you terminate an employee's employment without notice or with insufficient notice, the employee may bring a claim for wrongful dismissal. This is a breach of contract claim. Whether the termination is reasonable or fair is not relevant. If the dismissal is wrongful, you are unlikely to be able to enforce any restrictive covenants in the employment contract. So, if you want to make sure that the restrictive covenants remain valid and enforceable, you must terminate the employment with proper notice and in accordance with the contract of employment.

2 How much notice should I give?

The employee's employment contract should include a notice period clause setting out their contractual notice period. If this is equal to or more generous than the statutory minimum notice period, this period must be followed.

The statutory minimum notice period (which employees are entitled to once they have been continuously employed for at least one month) are:

- Up to two years' continuous service – one week's notice.
- Two years' continuous service – two weeks' notice.
- Thereafter, one additional week's notice for each additional complete year of service, up to a maximum of 12 weeks' notice after 12 years' continuous service.

If there is no notice period in the contract or if the contractual notice period is shorter than the statutory minimum period, you must adhere to the statutory minimum period.

- Conduct: For example, dishonesty, disobedience, absence without permission, lateness, violence, alcohol or drug use.
- Capability: The employee lacks the skill, aptitude, health or any other physical or mental quality or qualifications to do the work.

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- Redundancy: Business closure, workplace closure or reduced requirement for employees.
- Breach of a statutory provision: Where it would be illegal to continue to employ the employee. For example, if a delivery van driver was disqualified from driving, it would be illegal for him to continue in his employment.
- Some other substantial reason: A catch-all provision with broad scope that justifies the dismissal.

3 What if I want to terminate employment immediately?

If you want to terminate with immediate effect and award pay in lieu of notice (PILON), check that there is a provision in the contract of employment to let you do this.

If the contract includes a provision for PILON, it is not wrongful to terminate without notice. In addition, if there is no PILON you must be careful to ensure that:

- You terminate an employee's employment before their fixed- term contract expires.
- The employment contract does not include a notice period provision. In this case, you must give 'reasonable' notice (the statutory minimum notice period, at the very least).

4 How and when do I give notice of termination?

Give the notice of termination of employment in accordance with the employment contract (most contracts state that this should be in writing and you should specify the date of termination in the written notice). The notice period will start from the beginning of the day after the day you give notice. For example, if you give a week's notice on Monday, then the notice period starts on Tuesday and expires the following Monday.

5 Is the employee entitled to pay during the notice period?

Usually you should pay the employee their normal pay and benefits during the notice period.

6 What happens if the employee brings a successful claim for wrongful dismissal?

If the employee makes a successful claim, you will probably have to compensate them by paying damages. Damages reflect the net value of salary and any other contractual benefits, such as health insurance, car allowance and bonuses, that the employee would have been entitled to if they had been allowed to work out their notice.

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Section 2
Getting talent on board

Unfair dismissal

Unfair dismissal 'need to know':

- What is unfair dismissal?
- What are the five potentially fair reasons for dismissal?
- How can I show that I acted reasonably?
- What procedures must I follow?
- Can any employee bring an unfair dismissal claim?
- What happens if an employee brings a successful claim for unfair dismissal?
- What is a settlement agreement?

1 What is unfair dismissal?

Unfair dismissal is where there is no 'potentially fair reason' for the dismissal. This is a statutory claim, not a breach of contract claim.

For a dismissal to be fair, you must be able to demonstrate one of five potentially fair reasons for dismissing the employee.

You must also act reasonably and follow a fair procedure.

2 What are the five potentially fair reasons for dismissal?

For the dismissal to be fair you must show that it took place for one of the following reasons:

Conduct:

For example, dishonesty, disobedience, absence without permission, lateness, violence, alcohol or drug use.

Capability:

The employee lacks the skill, aptitude, health or any other physical or mental quality or qualifications to do the work.

Redundancy:

Business closure, workplace closure or reduced requirement for employees.

Breach of a statutory provision:

Where it would be illegal to continue to employ the employee. For example, if a delivery van driver was disqualified from driving, it would be illegal for him to continue in his employment.

Some other substantial reason:

A catch-all provision with broad scope that justifies the dismissal.

3 How can I show that I acted reasonably?

If the dismissal falls within one of the five permitted reasons, the Employment Tribunal will apply an objective test to determine whether you followed a fair procedure when dismissing the employee. Questions it might ask include:

Conduct:

Were you aware of misconduct at the time of the dismissal? Did you carry out a reasonable investigation before dismissing the employee?

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Capability:
Was re-training possible or appropriate? Did you provide supervision, set objectives and allow the employee time to demonstrate improvement? Did you suggest an alternative role?

Redundancy:
Did you warn the employee about the potential redundancy?

Did you put a fair selection procedure into practice?

Did you try to avoid redundancy and/or were alternative positions available?

Breach of a statutory provision:
Is the employee in breach of a statutory provision when carrying out their job?

Substantial reason:
Did you investigate the dismissal reason?

Did you warn the employee and explain the risk of dismissal?

4 What procedures must I follow?

You must follow a process that is fair and reasonable in the circumstances. In addition for dismissals on the basis of conduct and capability, you should follow the ACAS Code of Practice (see page 73). Take legal advice before taking steps to dismiss an employee.

5 Can any employee bring an unfair dismissal claim?

Generally, employees in the UK have the right not to be unfairly dismissed. But employees need two years' continuous service before they are eligible to bring an unfair dismissal claim.

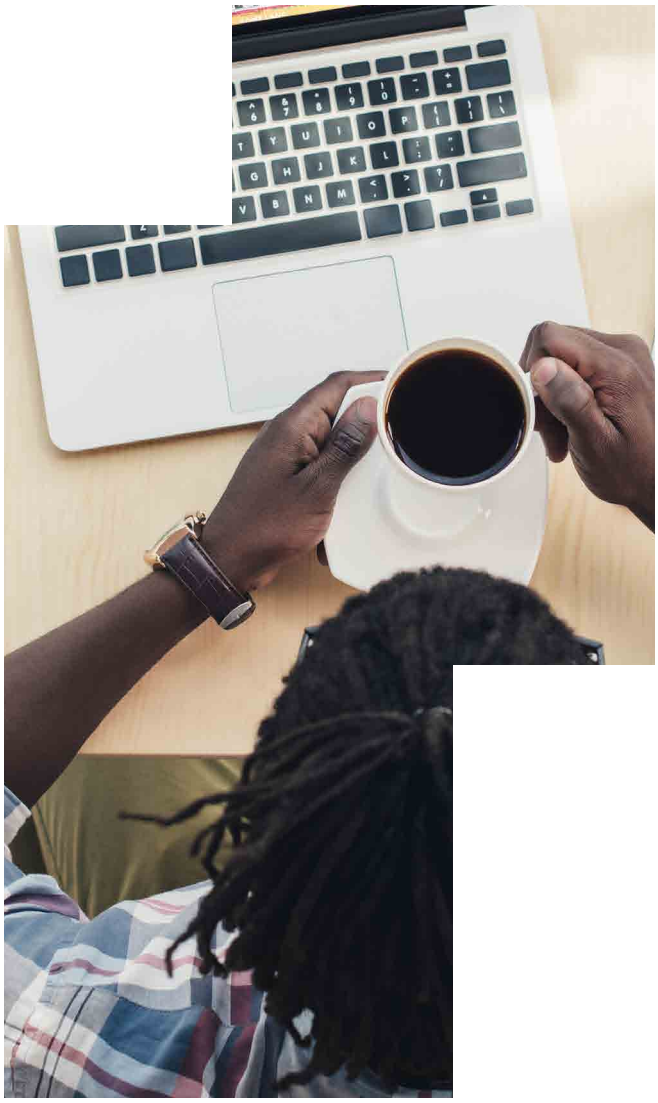
6 What happens if an employee brings a successful claim for unfair dismissal?

An employee who has been unfairly dismissed is entitled to reinstatement/re-engagement or compensation. In practice, compensation is the most common remedy.

The employee may get a Basic Award, currently up to a maximum of £15,240 (until 5 April 2019) and a Compensatory Award intended to compensate them for any loss suffered. The maximum compensatory award is currently £83,682 (until 5 April 2019) or 52 weeks' pay, whichever is the lower. The award may be increased or decreased by up to 25% depending on whether you have applied and adhered to the ACAS Code of Practice.

7 What is a settlement agreement?

If you are in dispute with an employee about terminating their employment, one option is to enter a settlement agreement. Under a settlement agreement, the employee waives all employment claims they might have against you and any other entities within the group. They must also abide by the confidentiality terms and restrictive covenants included in their employment contract. In exchange, you negotiate and make a termination payment to the employee. An employee must take legal advice before signing a settlement agreement in order for it to be binding.



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Changing the founding team

Whatever the reason might be, it is not uncommon to see early stage businesses changing their founders. This will impact on the shareholding of the business and can have two key aspects – the exit of an existing shareholder and/or the entry of a new shareholder. Some of the key considerations are below but note that in all cases, you should check the company's articles of association and any shareholder agreements, which may restrict your options.

There are a few options as to how a founder could exit the company:

Share buyback: It is possible for a company to buy back shares from a shareholder but you should check with your lawyers to ensure you meet any company law requirements. The exiting founder should also consider whether income tax or capital gains tax applies to the sale of shares back to the company. If capital gains tax applies, the exiting founder may also qualify for Entrepreneur's Relief.

Sale of shares to an external party: The founder selling shares should consider the capital gains tax implications of the disposal. If the founder has held at least 5% of the shares for more than 12 months (for disposals before 6 April 2019) and 24 months (for disposals after 6 April 2019), and has been a director or employee, s/he might qualify for Entrepreneur's Relief (which reduces the capital gains tax rate).

Sale of shares to existing shareholders: Again, as this is a disposal and there are tax implications on the disposal for the exiting founder.

Considerations for bringing on a new shareholder: As discussed above, the new shareholder can directly purchase shares from the exiting founder. There are stamp duty tax and filing obligations if this is the option and the value of the shares is in excess of £1,000.

Issue of new shares: You might want to issue new shares to the new founder. If these are issued for free, at nominal value or otherwise at below market value, this could be deemed an employee benefit and incur an income tax liability on the new shareholder. Typically this would be handled in the individual's self-assessment tax return but, in some circumstances, this would be accounted for through PAYE. The valuation of the shares would drive the income tax liability and is therefore an important step in this process.

Share options: Rather than issuing shares now, you might want to grant the new founder the option to acquire shares at an agreed future date for the current value of the shares. If done through an HMRC-approved scheme such as EMI, this can be a tax efficient route. Our EMI tool can help determine if your company is qualifying.

In all instances, there are legal, tax and accounting implications around changing the directors and shareholders of a company. We highly recommend seeking advice before taking any action and ensuring that you have all the correct paperwork in place. This includes not only tax calculations but legal documents, such as shareholder agreements. KPMG has teams which can help with all aspects of this.

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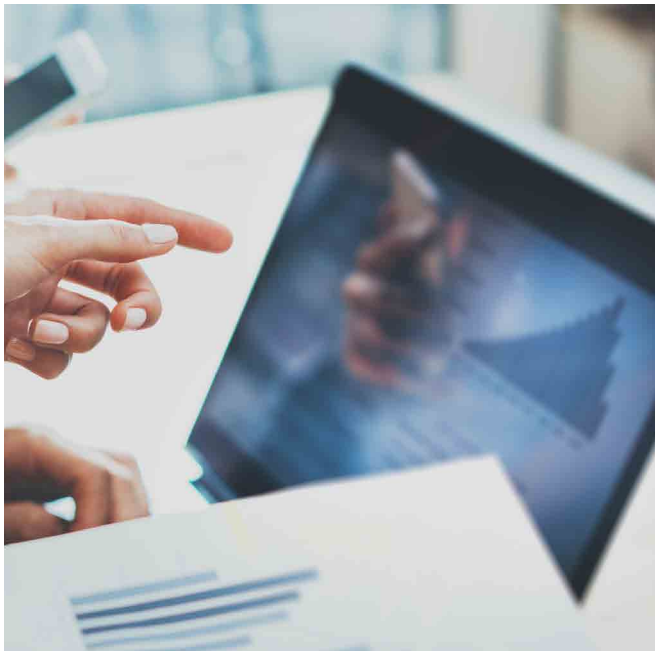
How to pay yourself

You can choose to extract value from the company and there are several ways this can be done.

Director loans: It is possible to take out a loan from the company as a director. However, this is only a short term method of extracting value as the loan will have to be repaid. If you do not want to repay the loan, you could choose to write it off and then pay income tax on the value.



If the loan is outstanding at the company's year end, the company may incur a corporation tax liability equal to 32.5% of the balance. This tax is then recoverable from HMRC after the outstanding balance has been paid off, or if the loan balance is written off.

If the loan is more than £10,000 and the interest charged is lower than the official rate then the company must also report the deemed interest (based on HMRC's official rate) as a benefit in kind and must account for employer's NICs. The individual receiving the loan must report this on their Self-Assessment tax return and pay income tax on the benefit.

Salary:

Salary is the monthly cash income you receive if you are an employee on payroll. The treatment that applies here is the same as in the 'Employees' section. Pay is handled through payroll and the company makes employer's NICs as well.

Dividend:

A dividend is money paid out of profits to a company's shareholders. The company must be in net profit over the lifetime of the business to be legally allowed to pay dividends. Therefore, early-stage, loss-making companies will not be able to pay dividends. The company must also have sufficient funds in order to pay the dividends but it does not have to pay them – rules on paying dividends are usually outlined in the company's Articles of Association.

Dividends are taxed on the individual who receives them through Self-Assessment and they are taxed slightly differently from other income. As of April 2018, each individual will have a tax-free Dividend Allowance of £2,000, regardless of what other income you have. Any dividends you receive over £2,000 will be taxed at the following rates:

- 7.5% on dividend income within the basic rate band
- 32.5% on dividend income within the higher rate band
- 38.1% on dividend income within the additional rate band

Dividends within your allowance will still count towards your basic or higher rate thresholds.

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Section 3

Funding options

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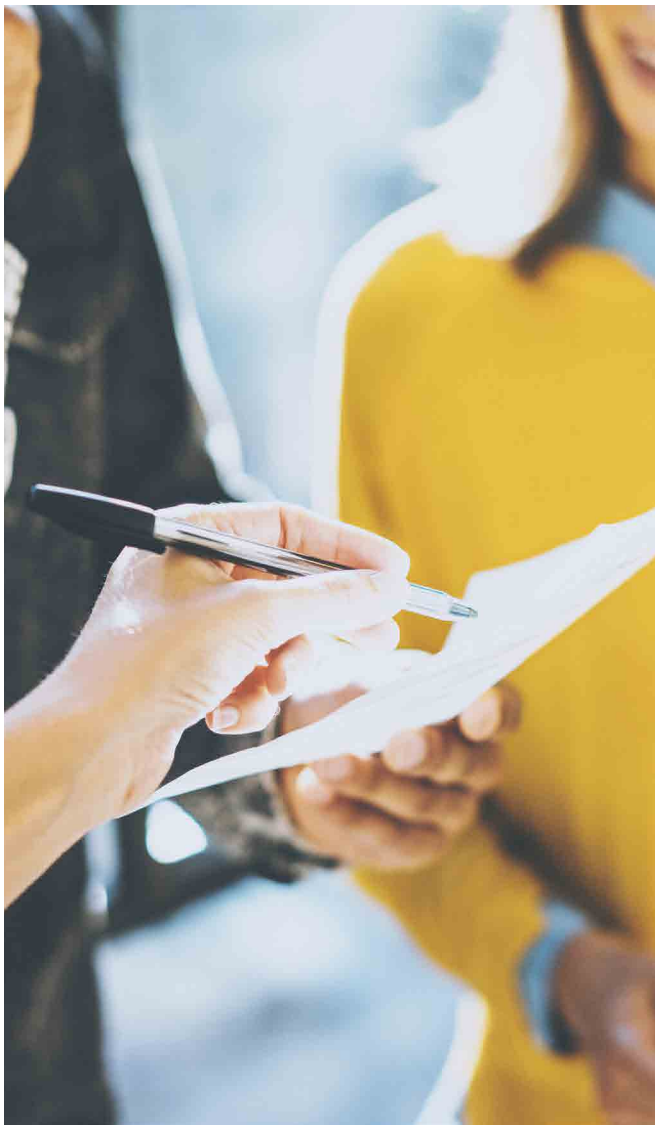
You don't have to rely on your bank for the funding you need to get going. There's now a whole range of funding options for your business, including new models like business accelerators and crowdfunding.

Once you've found investors who like what you do and want to be part of it, the government provides a helping hand too. Tax relief schemes for investors can make putting money into your business an even more attractive proposition.

This part of the guide can help you:

- Discover where to look for funding
- Understand what tax reliefs are available for your investors



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Funding options

Funding your business

You've had this brilliant idea that solves a problem or adds value for customers. You've researched the market and found that people are willing to pay for what you have to offer. Now, finding funding is the next step in turning your idea into reality.

Access to the right kind of funding at the right time plays an important role in growing a successful business. Options include traditional sources, such as overdrafts, loans and equity finance, and newer forms such as accelerators, crowdfunding and venture debt.

Funding options:

Overdrafts

An overdraft is a credit facility you agree with your bank and is generally used to cover short-term financing needs. Although an overdraft isn't suitable as a long-term source of finance, it can go a long way towards meeting immediate funding needs.

Overdrafts are flexible as you only pay interest on the amount you borrow. They are also easy to arrange but can be recalled by the bank at any time.

Loans

How much interest you pay depends on factors like The amount of interest you pay depends on factors such as how long you need the money for, whether the loan is 'secured' against assets you own, or other broader economic factors, like the Bank of England base rate.

Equity finance

Simply put, equity finance involves selling part of your company to get the funds you need. This takes different forms at different stages of the company's life:

Seed funding

Typically this is needed for product development, setting up a management structure, market research, etc. Sources of funding you can approach at this stage include accelerators, angel investors or crowdfunding platforms for seed funding.

Early-stage funding/Series A

This typically comes into play once you have achieved compelling early milestones for your business such as close to or started to take your product to market and gained traction with a few fee-paying customers.

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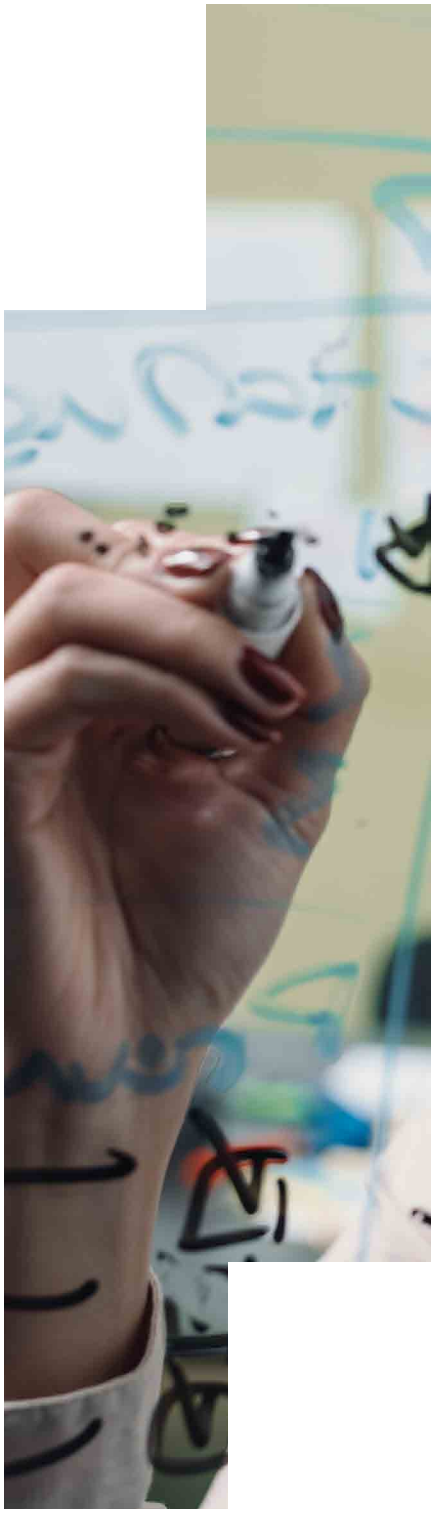

Expansion-stage funding / Growth stage funding

Once you've taken your product to market and validated your business model, the next step is to expand. This could be into different cities or internationally, or expanding on your product offerings. This is similar to early-stage funding, but tends to come from VCs and private equity firms (PEs) who are usually interested in more established businesses.

Accelerators

Accelerators are programmes that typically combine seed capital, office space, mentorship support and other business contacts that help you with your route to market. The standard model is a structured and intensive programme that usually runs for 3-6 months. Programmes generally culminate in a 'demo day' where startups pitch to a group of investors to raise the next round of funding.

Some accelerators are backed by large corporates who are interested in tapping into the innovative ideas from the startups they help. If you think the accelerator route could be right for your business, ensure you research your options and only apply to the accelerators that best suit your business and needs.

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Funding options

Crowdfunding

Crowdfunding has seen enormous rapid growth in the past few years because people now have an accessible way to invest in the latest technologies and ideas. Businesses that crowdfund are able to pitch their ideas to the masses, who, in turn, can invest into the company and also act as early adopters and advocates for your business, which is a great marketing tool.

However, owing to the impersonal nature of crowdfunding, you may miss out on the mentoring and guidance that you get with accelerators or angel investors, which can make the difference between making it big or going bust.

There are four types of crowdfunding platforms: equity, debt, donation and rewards-based platforms.

Equity platforms

Equity crowdfunding platforms, such as Seedrs, Crowdcube, and Syndicate Room, allow the 'crowd' to invest small to large amounts of money in your company in exchange for equity. Only when you achieve your target funding do you get access to it.

Debt platforms

Some crowdfunding platforms, such as Funding Circle and Zopa are beginning to offer the opportunity to sell debt on the platform, through the use of loans and other debt instruments. This avoids giving away equity as part of the raise, but does incur the finance costs associated with debt.

Rewards-based platforms

Rewards-based crowdfunding platforms, such as Kickstarter and Indiegogo, work differently. Instead of investing in exchange for equity, people pledge money in exchange for perks or products/services from your company. It is a great way to validate your product and more and more businesses are using it as a marketing tool. As with equity crowdfunding, you typically only get access to the funds if your campaign is fully funded.

Tax and customs duty considerations on crowdfunding

There are several considerations for crowdfunding.

If your raise is eligible for SEIS or EIS, it will be your responsibility to submit relevant paperwork to HMRC to receive formal clearance. Given the potential for a large number of eligible investors, this can be a time-consuming job and is something to remember when managing the process.

There are potential VAT considerations for crowdfunding. For instance, if you are doing a rewards-based campaign and offer the product/service or other products in exchange, this is likely to be a supply for VAT purposes and VAT may be due on your raise. Similarly, there is a possibility that a debt or equity raise could be considered a financial service and have broader implications for your VAT recovery position. We would recommend speaking to us before starting your campaign to ensure you understand the tax consequences.

Where your campaign entails shipping goods abroad, you should consider the cost of delivery, including the customs duty rate that might be applied to it and whether your business or your customer is responsible for paying this. Customs duty is normally a non-recoverable charge so may have an impact on profitability. You should also consider the VAT position on making sales abroad, including checking whether the local jurisdiction has a sales tax or other VAT equivalent which you may need to register for. This also applies if you are providing a service rather than a good, with some jurisdictions now requiring that you register for their equivalent of VAT in that jurisdiction if you make sales there.

Venture debt

Whilst funding via equity is the more common method of raising finances, later-stage startups could consider venture debt as a funding option to complement equity. Venture debt offer businesses additional capital without significant dilution to existing shareholders and founders. Typically, venture debt is right for businesses that already have a proven business model, have strong existing equity backers and are revenue generating. This may not be the best fit for all startups but is a funding option to consider as you grow and scale your business.

Revenue-based Royalty Financing

More mature businesses could also consider revenue-based royalty financing. This allows businesses to enter a revenue sharing arrangement to pay off the finance that has been given. There is no ownership dilution and no operational involvement from the financing provider. However, while this financing option typically has few restrictions on use of funds, businesses need to consider and negotiate the pre-defined royalty cap limits, which could be a challenge.

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Grants

Grants can be an excellent source of finance for your new business or new product or service line. While the majority of grants are issued by public sector bodies, there are private grants too. Grants are often aimed at businesses tackling a topical issue with a social impact or are exploring cutting edge technology.

Grants do not dilute the ownership of the business, which is great, but they do often have conditions attached, including additional reporting requirements, and applications can be lengthy. Note that a successful grant may impact on your ability to claim tax credits under the R&D scheme and to raise money under SEIS or EIS.

When to raise finances

Ideally, you should only aim to raise funds when it is needed. If you are able to bootstrap your business as long as possible to obtain market validation and traction for your product, the route to find capital at a later date may be easier.

Do your research on the types of funding that suits you and your business and find the right fit for you.

Remember that the fundraising process is time consuming, whichever route you choose. Ensure that you factor in enough time and capital runway and always seek funding when you are not desperate – this will help with your negotiation.

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Section 3
Funding options

Tax relief for investors: SEIS and EIS

For any business, attracting investment is often a major challenge. So anything that makes investing more attractive – for you or for other people – has got to be good news.

There are two tax relief schemes designed to encourage investment in small and medium-sized UK businesses: the Seed Enterprise Investment Scheme (SEIS) for early-stage businesses and the Enterprise Investment Scheme (EIS) for companies that are more established. Both offer generous tax incentives to UK taxpayers buying new shares in unquoted companies.

Understanding the two schemes:

- Does my business qualify?
- What's the difference between SEIS and EIS?
- Do I qualify as an investor?
- What are the tax incentives available to investors?
- Withdrawal of relief

Does my business qualify?

To qualify for SEIS or EIS, a company must carry out a 'qualifying business activity' and be a UK resident company or a non-UK company with a UK registered branch.

If your company doesn't deal in shares, invest in property or provide financial, legal or accountancy services, it is likely to qualify. Even if your company is only preparing to carry out a qualifying trade when the investment is made, relief will still be available, provided trading starts within two years.

SEIS and EIS both offer generous tax incentives to UK taxpayers buying new shares in unquoted companies.

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What's the difference between SEIS and EIS?

You can see from the summary below that SEIS is generally intended for smaller, newer companies.

	EIS	SEIS
Gross assets	< £15 million immediately before the subscription and < £16 million after	< £200,000 immediately before the subscription
Number of employees	< 250	< 25
Trading period prior to investment	No limit	< 7 years
Maximum amount raised through venture capital funds	£5 million annually with lifetime cap of £12 million or £20 million for 'knowledge intensive' companies	£150,000 in total

Additionally, the below Risk to Capital conditions are to be met by companies raising funds through SEIS and EIS.

- The company must use the money for growth and development.
- The investment should be a risk to the investors capital (The investment should carry a risk that the investor will lose more capital than they are likely to gain as a net return).

Do I qualify as an investor?

To claim relief under EIS or SEIS, you cannot be a 'connected' person to the company. Broadly, this means you cannot be an employee in the company and/or own more than 30% of the company at any point during the two years before the share issue and during the required holding period. But you can be a director of the company, although certain restrictions apply under EIS.

Here's a summary of the key differences:

	EIS	SEIS
Ability to be a director	Yes, if appointed after investment and paid a salary reasonable for the role	Yes
Annual investment limit	Up to £1 million per tax year, with the ability to carry back to the previous year	Up to £100,000 per tax year, with the ability to carry back to the previous year
Requirement to subscribe for shares in cash	Yes	Yes
Holding period	3 years	3 years

What are the tax incentives available to investors?

If the shares are held for more than three years in either scheme, investors are eligible for income tax relief.

But there are some key differences:

	EIS	SEIS
Income tax	30% tax relief of investment	50% tax relief of investment
Dividends	Taxable	Taxable
Capital gains on investment if held for at least 3 years	Exempt	Exempt

Withdrawal of relief

If the shares are sold within three years of buying them, the income tax relief the investor received will be taken away. In practical terms, this means the tax inspector will revise the investor's previous tax calculation (when the relief was claimed) to take away the deduction claimed under EIS/SEIS and therefore trigger a tax liability. The amount of relief taken away depends on whether the shares are sold at a gain or a loss.

Selling at a gain within three years

If the shares are sold at a gain, the whole relief claimed when the shares were acquired will be withdrawn. This means the investor's tax liability will be the amount previously deducted for EIS/SEIS.

Selling at a loss within three years

If the shares are sold at a loss, the amount of tax relief withdrawn varies depending on which scheme the investment was made under. Under EIS, tax relief withdrawn is calculated as 30% of the proceeds from the sale of the shares. Under SEIS, tax relief withdrawn is calculated as 50% of the proceeds from the sale of the shares.

Here's an example. You buy the shares for £200,000 and claim EIS relief which reduces your income tax liability by £60,000. 12 months later you sell the shares for £150,000. As a result, HMRC withdraws £45,000 of the relief you originally received (30% of £150,000).

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Section 4

Compliance and tax reliefs

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People exercising significant control (PSC) register

Under new regulations, from 6th April 2016, unlisted UK companies and LLPs must maintain a register of people with significant control (PSC).

The Register:

- contains details of all individuals who ultimately own or control 25% or more of the entity's shares or voting rights, or who otherwise exercise significant control over the entity or its management
- needs to be freely accessible at the registered address
- must be filed with Companies House, who will make it freely available and searchable online

Failure to maintain a PSC Register or file the information is a criminal offence.

A PSC is someone in your company who:

- owns more than 25% of the company's shares
- holds more than 25% of the company's voting rights
- holds the right to appoint or remove the majority of directors
- has the right to exercise, or actually exercises significant influence or control
- holds the right to exercise or actually exercises significant control over a trust or company that meets any of the other 4 conditions

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Section 4
Compliance and tax reliefs

Tax compliance

Meeting your company's obligations is part and parcel of doing business. The good news is that you may be eligible for certain tax reliefs, including those designed to support small businesses.

This part of the guide can help you understand:

- The basics of corporation tax and VAT
- What tax reliefs are available to your business
- When you require an audit

Corporation tax: the basics

Worrying about tax is a distraction. The trick is to get clear on the tax rules from the start and set up a system that lets you manage your tax affairs correctly and efficiently. Then you'll be free to focus on building your business. As a UK resident company, you'll be operating under the Corporation Tax Self Assessment (CTSA) regime. This makes notifying the tax authorities about your business, filing a return and paying your tax on time your responsibility.

Corporation tax: key questions:

- Where do I begin with corporation tax?
- How do I file my tax return?
- When do I file my tax return?
- How will I know if HMRC is happy with my return?
- What rate is corporation tax charged at?
- How do I work out how much tax there is to pay?
- What happens if I'm not making a profit?
- When will I have to pay any tax due?
- What records do I need to support my tax return?

Where do I begin with corporation tax?

When you register with Companies House, your company will get a unique ten-digit tax reference number. This will be posted to your registered company address within 14 days of registration. Once you have this, you must contact HM Revenue & Customs (HMRC) within three months of starting to trade to let them know the company is trading.

How do I file my tax return?

HMRC requires companies to file online. Along with the CT600 (your tax return), you will also need to file a supporting computation and statutory accounts prepared using either HMRC's free online filing software or commercial software.

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When do I file my tax return?

Your company must complete a UK corporation tax return for each accounting period. An accounting period is usually 12 months long and ordinarily, your financial accounts which should be submitted to Companies House cover this period. You must submit your corporation tax return within 12 months of the end of the accounting period.

How will I know if HMRC is happy with my return?

Provided you file your return on time, HMRC has up to 12 months to enquire into the return. If you don't hear from them within this period, you can assume they are satisfied with your return.

What rate is corporation tax charged at?

The standard rate is 19% for all companies. This will be reduced to 17% from 1 April 2020.

How do I work out how much tax there is to pay?

Corporation tax is only paid on any taxable profits your company has made in an accounting period. In order to calculate this, the starting point is your profit or loss per your company's financial accounts.

Various tax rules require you to adjust the profit or loss figure in your financial accounts in order to calculate the 'profits chargeable to corporation tax' figure on your tax return.

Disallowable expenses

Not all your company's expenditure counts when it comes to calculating profits for tax purposes. Items that are 'disallowable' (i.e. cannot be deducted when calculating taxable profits) for corporation tax purposes include:

- Client entertaining, hospitality and gifts
- Certain legal and professional fees
- Any spending on items that are not used wholly and exclusively for the purposes of the company's trade
- Certain capital expenditure

Timing differences

Timing differences in the way things are recorded for accounting and tax purposes will also affect the final figure. For example, tax relief on the purchase of a computer may be spread over a different period of time to how it was expensed in the accounts.

Tax relief

Sometimes you'll be able to make additional deductions to reduce the profits chargeable to tax. A good example of this is when you've spent money on activities that qualify as research and development (R&D).

What happens if I'm not making a profit?

If you make a loss for tax purposes in an accounting period, your trading losses are automatically carried forward and set against future profits of the same trade. This has the effect of reducing your potential future corporation tax liabilities.

If your company is doing work that qualifies as R&D, you can choose to surrender these losses and take a cash tax credit instead.

When will I have to pay any tax due?

In general, corporation tax is due nine months and one day after the end of the accounting period it relates to. Interest on underpayments or late payments of corporation tax is added from the due date for payment to the actual date of payment.

If you file your corporation tax return and supporting documentation after the 12-month deadline, you'll get a late filing penalty of £100. There are more penalties if your return is three months, six months or 12 months late. As you grow, you may be required to pay corporation tax in quarterly installments.

What records do I need to support my tax return?

Under CTSA rules, you must maintain full accounting records for tax purposes. These must include computer records, receipts for income, purchases and expenses, and all other supporting documents of the business (including accounts, books, deeds, contracts, vouchers and receipts).

You must keep hold of these records for six years from the end of the accounting period (or longer if enquiries are still ongoing for that year or an earlier year).

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Section 4
Compliance and tax reliefs

VAT

You may not be required to register for UK VAT but if you are required to be, or choose to register voluntarily, you will have to submit a VAT return to the tax authorities every quarter (or monthly if you choose).

VAT: the basics:

- What is VAT?
- Do I have to register for VAT?
- Can I choose to register for VAT?
- Can I reclaim VAT I pay before I register?
- What type of things can't I reclaim VAT on?
- What are the different rates of VAT?
- What's the difference between zero (0%) VAT and exempt from VAT?
- How do I register for VAT and file my returns?
- How and when do I pay my VAT?
- What if I make a mistake on my VAT return?
- How does VAT work for sales to non-UK customers?
- Making Tax Digital

1 What is VAT?

Value Added Tax (VAT) is charged when a VAT-registered business sells taxable products or services (known as 'taxable supplies') to another business or an individual customer.

If you're VAT-registered, you may be able to reclaim the VAT you pay when you buy goods and services from other VAT-registered businesses. If you're not VAT-registered, you don't have to charge VAT to your customers, but you can't reclaim VAT you've paid either.

2 Do I have to register for VAT?

If you're a business and the goods or services you provide count as 'taxable supplies', you must register for VAT if:

- Your taxable supplies for the previous 12 months exceed the 'VAT threshold' (currently £85,000 for the tax year 2018/19); or
- You think your taxable turnover will go over this limit in the next 30 days alone

'Taxable supplies' include:

- Supplies you make in the UK that would be subject to the standard, reduced or zero rate of VAT (see below)

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- Supplies of some types of services that you receive from businesses based outside the UK. You may also need to register for VAT if you bring goods into the UK from other EU countries with a total value of £85,000 or more, or if you expect to do so in the next 30 days alone

Where you sell goods from the UK to other countries, you should check each country's local registration rules to see whether you have a requirement to be registered for VAT locally.

If you need to register for VAT you must tell HMRC within 30 days of:

- Breaching the threshold; or
- Realising that you will breach the threshold in the next 30 days alone

3 Can I choose to register for VAT (voluntary registration)?

This may be a good idea if:

- You buy lots of goods and services from VAT-registered businesses and want to claim some of the VAT back (which may improve your cash flow);
- Your customers include large businesses that only deal with VAT-registered suppliers; or
- You make taxable supplies which will require you to be registered for VAT in the future and are concerned about monitoring when your compulsory registration requirement will arise

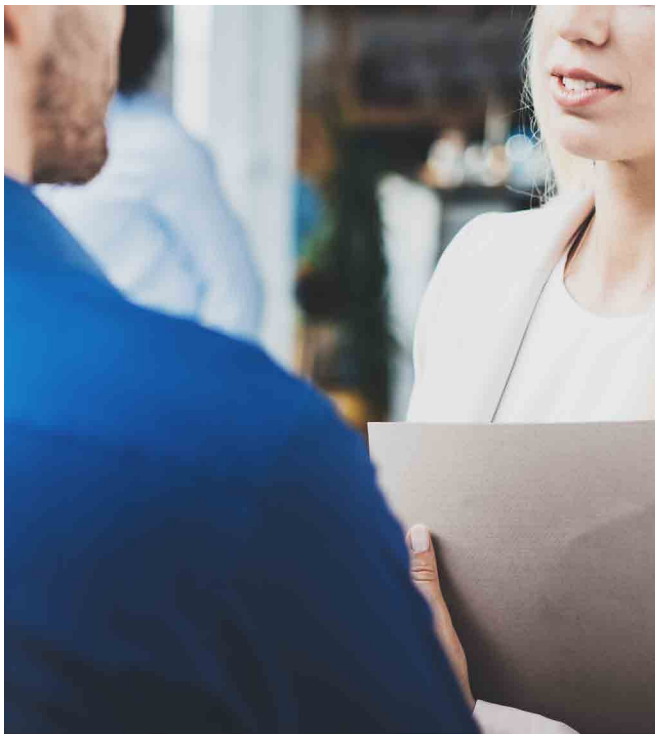
If you make taxable supplies (or intend to), you may choose to register at any time. This is a voluntary registration for VAT, rather than a compulsory registration. Once registered, you

have to charge VAT on all taxable supplies to all your customers

4 Can I reclaim VAT I pay before I register?

You can recover VAT on your pre-VAT-registration expenses if they relate to your business within certain time limits:

- For goods (provided that you still have the items)
- You can claim for up to four years prior to registration
- For services, you can claim for up to six months prior to registration



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5 What type of things can't I reclaim VAT on?

You cannot generally reclaim VAT on:

- Items for personal use
- Business entertainment
- Cars (leased normally 50% restriction or purchased normally 100% restriction)

6 What are the different rates of VAT?

Different rates of VAT are charged depending on the product or service sold:

- Standard (20%): the default rate that applies to most products and services
- Reduced (5%): covers items such as domestic fuel and power
- Zero (0%): covers items such as some food (but not excluded items, meals in restaurants and hot takeaways, which are charged at 20%), books and newspapers, children's clothes and public transport
- Exempt from VAT: applies to goods and services primarily relating to supplies of land, health, education, financial services
- Out of scope from VAT: covers items such as government grants and wages

An item is assumed to be standard rate unless it is listed in VAT Act 1994 Schedules 7A-9.

7 What's the difference between zero (0%) VAT and exempt from VAT

If your business only provides products or services that are

exempt from VAT (it provides loans, for example), you are not entitled to register for VAT, you do not charge VAT on your supplies but you cannot reclaim VAT on your purchases. If your business sells items zero-rated for VAT (such as books), you again do not charge VAT but you are entitled to reclaim VAT on your purchases (subject to normal restrictions).

8 How do I register for VAT and file my returns?

You can register online with HMRC. Registering for VAT online is secure, quick and easy. It automatically sets you up to make your quarterly VAT returns online.

9 How and when do I pay my VAT?

The deadline for payment each quarter is shown on your online return and is normally one month and seven days after the end of your VAT period. You must pay any VAT due electronically.

10 What if I make a mistake on my VAT return?

If you make a mistake, you can correct it on your next VAT return provided that the error is £10,000 or less. You can also correct it on your next VAT return if the error is less than £50,000, but only if it is also less than 1% of your turnover for the current VAT quarter. Anything above this and you must write to HMRC immediately.

11 How does VAT work for sales to non-UK customers?

Whether you are required to charge VAT on a supply of goods or services to a customer 'established' outside of the UK will be dependent on whether the place of supply is in the UK which would be determined by the following:

1) The nature of the supply
2) The nature of the customer
3) The VAT registration status of the customer.

Where you sell goods or services to customers outside the UK, you may be required to register for VAT or other sales taxes in the customer's country. This can apply even where you have no physical presence in the customer's country (e.g. if you are selling to them through the internet).

The rules for sales to foreign customers can be complex and further advice should be taken with regards to supplies to customers outside the UK.

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12 Making Tax Digital

As a result of the new rules being introduced regarding Making Tax Digital ("MTD"), UK VAT registered businesses (over the VAT threshold) will need to update their systems and processes for tax reporting.

The new rules come into effect from 1 April 2019, however a number of businesses will benefit from a six month deferral to 1 October 2019.

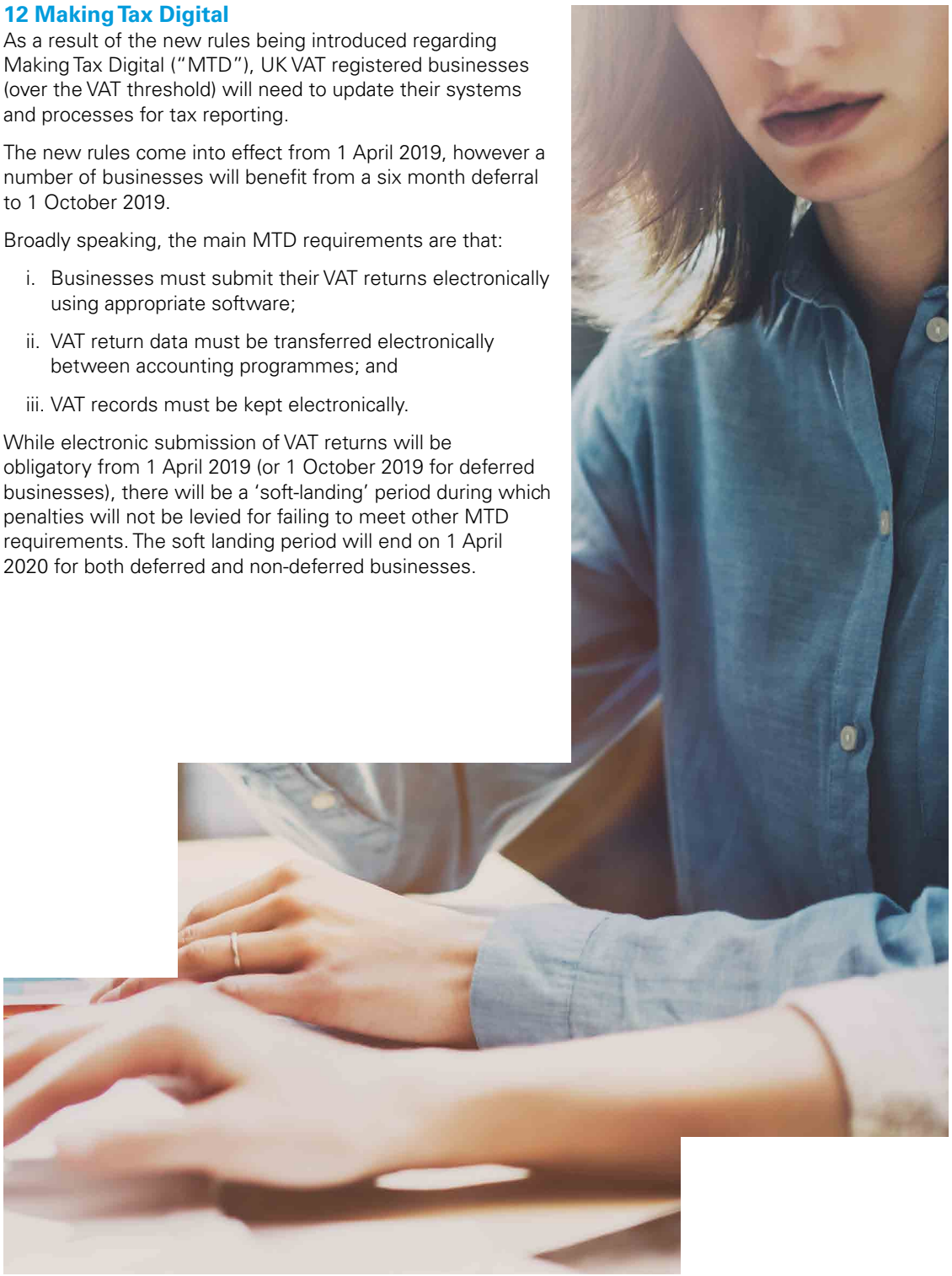
Broadly speaking, the main MTD requirements are that:

i. Businesses must submit their VAT returns electronically using appropriate software;

ii. VAT return data must be transferred electronically between accounting programmes; and

iii. VAT records must be kept electronically.

While electronic submission of VAT returns will be obligatory from 1 April 2019 (or 1 October 2019 for deferred businesses), there will be a 'soft-landing' period during which penalties will not be levied for failing to meet other MTD requirements. The soft landing period will end on 1 April 2020 for both deferred and non-deferred businesses.



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Section 4
Compliance and tax reliefs

Research & development (R&D) tax reliefs

Are you investing time and money in developing technology and new ways to use it? If you are, you could be eligible for additional tax relief or a cash payment to help towards the cost.

The UK government offers tax relief for companies involved in scientific or technology research and development (R&D). One of its aims is to encourage UK companies developing tech businesses.

R&D 'need to know':

- Who can claim R&D tax relief?
- Which activities are eligible?
- Are you an SME?
- How much is the R&D tax relief worth?
- What costs can I claim?
- How and when can I claim it?
- Can you give me some examples of successful R&D claims?

1 Who can claim R&D tax relief?

If your company is spending money on developing new products, process or systems, you may be able to claim. This applies even if you are not making a profit and even if you won't be keeping the intellectual property you develop.

If you have received funding for a project, you may still be eligible for R&D tax relief. However, certain funded R&D may mean that R&D relief can only be claimed under the RDEC scheme (for large companies). This would reduce the benefit from 26% to 8.9%.

2 Which activities are eligible?

All activities that seek to develop new product capabilities, improve efficiency of a system or use a combination of products or systems in a new way may qualify. Activities must be carried out by technical based individuals such as engineers, scientists and technologists. The definition is broad and applies to all industries; the R&D doesn't have to produce a patentable technology, but this is usually a good indication that qualifying R&D is being carried out. As a general rule, if your team cannot easily solve a problem without head scratching sessions, the costs associated with the work to solve the problem may qualify for R&D tax relief.

3 Are you an SME?

For R&D tax purposes an SME is a company employing <500 persons with either:

- Turnover of < €100m, or
- Balance Sheet gross assets of < €86m

This includes a review of the ownership structure as the limits are not just applied to the claimant company.

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4 How much is the R&D tax relief worth?

As an SME, you may be able to claim 130% additional tax deduction on qualifying expenditure. If your company is making a profit, this would result in a lower tax bill of up to £26,000 for every £100,000 of qualifying R&D expenditure.

If your company is making a loss, you may also be able to claim a 14.5% cash payment on R&D losses. For example, for every £100,000 you spend that is eligible for an R&D claim, this would result in a potential cash payment of £33,350 from HMRC in exchange for giving up the related trading losses. The cash payment is made once HMRC has processed your corporation tax return.

Many companies seek help with R&D tax reliefs to make sure they are maximising their claim.

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Section 4
Compliance and Tax Reliefs

The Patent Box: taxing profits from patented inventions

Using patents to protect any innovations used in your business can be costly, but it's worth bearing in mind that a lower rate of corporation tax can apply to profits made from patented intellectual property (IP) assets.

The Patent Box regime was introduced in April 2013 and, where certain conditions are met, the regime allows a company to elect to apply an effective 10% rate (after a phase in period) of corporation tax on profits derived from the use of qualifying patents and other similar IP rights.

Using Patent Box can reduce your effective tax rate and the amount of cash tax you must pay.

From 1 July 2016, a new Patent Box regime incorporating a 'nexus' approach came into force. Under the nexus based approach a claimant's benefits will be based on their proportionate contribution to R&D associated with the relevant IP income stream.

However, 'grandfathering' rules allow companies which met the qualifying conditions for the historic regime on or before 30 June 2016 (and in some cases in advance of 2 January 2016 where IP is transferred between certain companies) to continue to benefit from the historic rules until 30 June 2021. This can be a significant advantage for some companies.

The Patent Box: what's it all about?:

- What do I need to know about the Patent Box?
- How do I qualify?
- What is the benefit? When do the rules apply?
- Which patents will qualify?
- What types of income will qualify?
- What records do I need to support my tax return?

1 What do I need to know about the Patent Box?

There are four key points:

- Profits from qualifying patent interests will be taxed at 10%. These benefits are available in addition to claiming R&D tax credits. (In fact, making an R&D tax claim can enhance your Patent Box claim).
- If you are a UK company or an overseas company with a taxable UK branch, and you hold interests in qualifying IP rights (primarily UK and many European patents) or an exclusive licence over such rights (perhaps from another group company), you may be able to take advantage of Patent Box.
- The regime is very broad. For example, even if the patented element of a product is minor, 100% of sales income from the product often falls into the regime.

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- If your patents relate to the internal processes you use to produce your products or underpin the services you provide, then you could still qualify for Patent Box.

2 How do I qualify?

To qualify for the regime, your company must meet the three following criteria:

- Hold a qualifying IP right (broadly a patent granted in a qualifying territory, Marketing Authorisation or Supplementary Protection Certificate) or an exclusive licence over a qualifying IP right.
- Make a significant contribution to the development of the qualifying patent or any product incorporating the patented invention (or in certain cases, be part of a group which has undertaken such activity).
- Perform significant management activity in relation to the qualifying IP.

3 What is the benefit?

The Patent Box regime taxes qualifying profits at 10% in the UK, rather than at the standard tax rate (20% from April 2016, reducing to 19% and 17% in April 2017 and April 2020 respectively). This reduces the effective tax rate and cash tax payable. You can use Patent Box and continue claiming R&D tax credits.

4 When do the rules apply?

Broadly, patents applied for prior to 1 July 2016 fall under the 'old' regime, the benefits of which will continue to be enjoyed for a five year transitional period ending in June 2021 (as long as the company met the qualifying conditions on or before 30 June 2016).

Patents applied for from 1 July 2016 onwards (or companies who did not meet the qualifying conditions before this date) will fall under the new regime, where the amount of R&D undertaken by the company in relation to the IP/product as a proportion of the total R&D undertaken in relation to the IP/product will determine the proportion of total Patent Box benefits available.

You have two years from the end of an accounting period to make an election.

Which patents will qualify?

Patents granted by the UK Intellectual Property Office, the European Patent Office and certain other EEA State Patent Offices all qualify.

As well as legal owners, the regime will cover exclusive licence holders (for example, companies holding an exclusive right to exploit patents in a single territory or field of application) and companies entitled to exploit patents through cost-sharing arrangements or acting in partnership.

5 What types of income will qualify?

The types of income that qualify under the Patent Box regime include:

- Income from the sale of products with at least one integral patented component.
- Licence fees/royalties for granting rights over qualifying patents.
- Certain income derived from valuable patents used in processes that underpin non-patented products/ services/ consultancy.
- Proceeds of realisation of a qualifying patent or exclusive licence.
- Income from infringements.

6 What records do I need to support my tax return?

- It is recommended that any Patent Box claim is supported by a brief supporting document setting out how and why the company meets the qualifying conditions for Patent Box, as well as a brief methodology of the claim.
- Going forward, under the nexus regime, it will be necessary to undertake detailed 'tracking and tracing' of all R&D expenditure at the level of patent, product or product family in order to support a claim. In most cases, this information will be needed from 1 July 2016 onwards.

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Capital gains and entrepreneurs' relief

You've done the hard work and developed a great business and now you are ready to sell it all or part of it on. If you make a gain on this disposal, it may be subject to Capital Gains Tax (CGT). The good news is that if you qualify for Entrepreneurs' Relief (ER), you could have less CGT to pay on the disposal. Investors' relief (IR) has recently extended these benefits to long-term investors.

How is the capital gain calculated?

Broadly speaking, the gain that is subject to CGT is calculated by subtracting the cost of the asset (if you are selling shares in your company, this is usually the cost of the shares when they were issued) from the proceeds received from the disposal of the asset (in this case, the amount received for the shares you are disposing).

How much capital gains tax do I have to pay?

For the 2018-19 tax year, there is tax free allowance for the first £11,700 of capital gains in a given tax year. Capital gains in excess of this amount are subject to CGT at 20% for higher and additional rate tax payers.

How can entrepreneurs' relief benefit me?

If you are eligible for ER, the capital gain on the eligible disposal will be taxed at 10% regardless of the level of your taxable income – subject to a £10 million lifetime cap.

Do I qualify for entrepreneurs' relief?

You may qualify for ER if you dispose of the following:

All or part of your business

- If you're selling all of part of your business, you must be a sole trader or business partner and you must have owned the business for at least two years before you sell it.

Shares or securities

If you're selling shares or securities, both of the following must apply throughout the year before you sell your shares:

- you're an employee or office holder of the company (or one in the same group)
- the company's main activities are trading (rather than non-trading activities like investment) or, it's the holding company of a trading group

Either of the following must also apply for at least one year before you sell your shares:

- if they're not EMI shares, you have at least 5% of ordinary shares – tested by nominal value and voting rights in the company
- if they're EMI shares, they were obtained after 5 April 2015 and you were given the option to buy them at least one year before you're selling them

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How do I claim entrepreneurs' relief?

You can claim Entrepreneurs' Relief either:

- through your Self Assessment tax return
- by filling in Section A of the Entrepreneurs' Relief helpsheet

The claim must be made by 31 January two years after the tax year in which the disposal was made. For example, if the disposal was made in 2016/17 tax year, the claim must be made by 31 January 2019.

What about investors' relief?

Investors' relief (IR) allows long-term investors to benefit from the 10% CGT rate on qualifying disposals and was called an extension to Entrepreneurs' relief. However, the most significant difference is that IR is not available where you are an employee or paid director of the company.

Investors' Relief (IR) applies to external investors in unlisted trading companies (or holding companies of trading groups), for newly issued ordinary shares acquired for new consideration on or after 17 March 2016.

Importantly, the investment must be held for at least three years from 6 April 2016. A £10 million lifetime IR cap will apply in addition to the lifetime Entrepreneurs' Relief (ER) allowance of £10 million.

It should be noted that an issue of qualifying SEIS/EIS shares could be more beneficial as (providing certain conditions are met), the capital gain on disposal of these shares is exempt from CGT.

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Section 4
Compliance and Tax Reliefs

Audit

Getting an independent audit of your financial records can raise your standing with potential investors and put you in a better negotiating position with banks, suppliers and customers. These are just some of the reasons to consider having an audit even if you're not required to have one by law.

Audit – key questions:

- What is an audit?
- Do I need an audit by law or am I exempt?
- What does an audit involve?
- What are the benefits of being audited?

1 What is an audit?

An audit is an examination of your company's financial statements by an independent firm. Your financial statements include your balance sheet and an income statement and any explanatory notes. In the UK, these statements need to follow generally accepted accounting principles (GAAP) as well as the Companies Act. GAAP in the UK is the body of accounting standards and other guidance published by the UK's Financial Reporting Council (FRC). A new financial reporting framework in the UK is effective from 1 January 2015. The UK's Financial Reporting Council (FRC) has published five standards which together form the basis of the new UK regime. The Financial Reporting Standard for Smaller Entities (FRSSE) has been withdrawn and small entities brought within the scope of FRS 102 (the Financial Reporting Standard applicable in the UK and Republic of Ireland for accounting periods beginning on or after 1 January 2016).

The purpose of the audit is to let the auditors decide whether the information presented in your financial statements reflects a true and fair view on the financial position and financial performance of your company. The audit opinion also confirms that you've complied with GAAP and with the UK Companies Act.

2 Do I need an audit by law or am I exempt?

Effective for periods beginning on or after 1 January 2016, if your company meets at least two of the following criteria, it qualifies as a 'small company' and is usually exempt from being audited by law:

- The company has fewer than 50 employees (on average during a financial year)
- The company's assets are worth no more than £5.1m at the end of a given financial year
- The company's annual turnover is below £10.2m

Your company also needs an audit if 10% of your shareholders ask for one.

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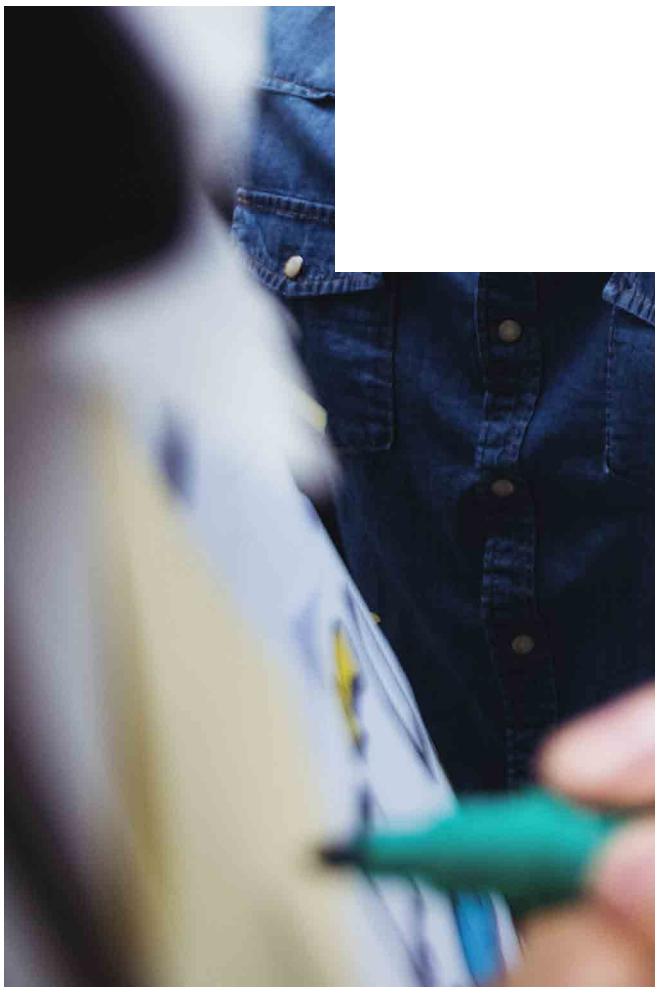

3 What does an audit involve?

Auditors start by getting to know your company's business and challenges, taking into account any issues in your industry that might have an impact. They assess any risks that could affect your financial statements as well as any internal controls that you've put in place to reduce those risks. It is likely that as a typical SME, you'll probably have very few internal controls.

Based on their risk assessment, the auditors carry out some more checks so that they have enough supporting evidence to issue an audit opinion on whether your financial statements reflect a true and fair view on the company's financial position.

4 What are the benefits of being audited?

Even if you're not legally required to have an audit, institutional investors often ask for one to make sure that your financial position and performance are properly recorded.

Also, many privately held companies volunteer for an annual audit because it shows they have nothing to hide and confirms that the publicly available financial information about the company is accurate. This can help when it comes to securing funds from investors and in negotiations with banks, suppliers and customers.

Auditors also use the audit to make recommendations for improving your systems, internal processes and procedures as you grow. They can give you a view on financial matters, such as whether your company is ready for a public listing and ensure that the arrangements you've got for running and controlling the company are up to public scrutiny. They can also talk to you about some of the management best practices that they see in the market place.

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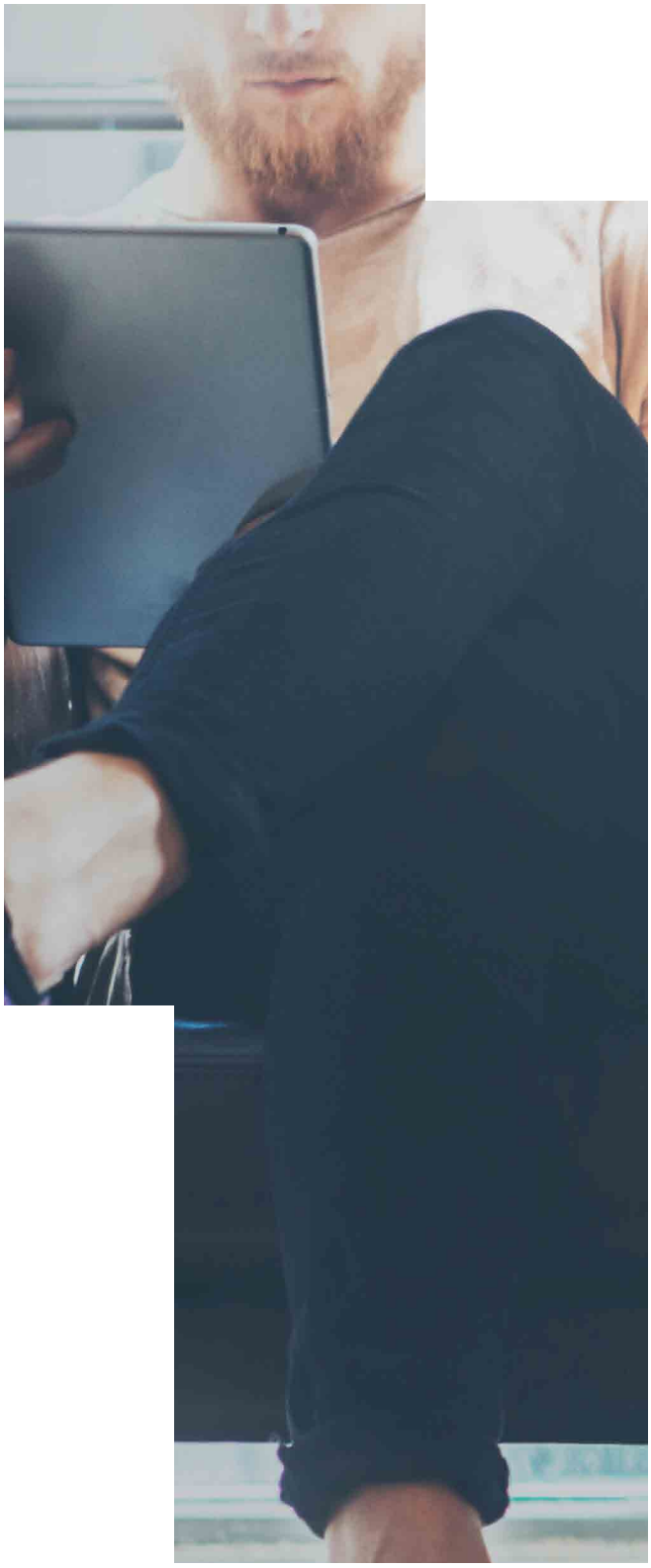
Section 5

Protecting intangible assets and intellectual property



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As your business develops, you'll create intangible assets such as your brand or the process you follow to provide a service or sell products. Protecting these assets from use by copycats or other businesses can be a challenge.

This part of the guide can help you understand:

- What type of assets count as intellectual property
- What action you need to take to claim your IP rights
- Which IP rights can help you protect which assets

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Section 5
Protecting intangible assets and intellectual property

IP rights: the basics

Intellectual property (IP) rights give you the legal rights you need to stop others stealing your intangible assets. And because IP rights are at the core of most businesses, potential investors will expect to see that you are serious about managing and protecting these rights.

What type of assets can I protect with IP rights?

Intellectual property				
Marketing related	**Customer related**	**Artistic related**	**Contract based**	**Technology based**
Registered trade marks (e.g. Business name or product/service brands) Unregistered trade marks and designs (e.g. Sub-brands, character names) Domain names (e.g. Top level and lower levels) QR Codes	Database rights (e.g. Customer data) Copyright (e.g. software, mobile apps) Confidential information Methodology for delivery of a service	Design of website Registered designs (e.g. Products) Music, advertising jingles Copyright (i.e. brochures, content of website, training materials) Pictures and photos Clips and audiovisual	Consumer terms and conditions, including returns policy Licences to use third party IP (e.g. Apps, website designs) Supplier contracts (e.g. Distribution logistics) Non-disclosure agreements	New inventions Algorithms (e.g. Used to analyse customer data) Software – object and source code (e.g. Sales platform, apps) Website search tools Trade secrets, formulae Business methods and systems

Who owns my business' IP assets?

IP assets created by your business will be owned by your business, provided that the people involved in creating them are employees. If you use external contractors to create your IP assets, you need to make sure there is a written contract, signed by the contractor, that transfers the IP rights in the assets that the contractor creates to your business.

How do I claim my business' IP rights?

Some IP rights arise automatically but others need to be registered at a national intellectual property office. Registered protection only extends as far as the country in which the right is registered.

How do I let clients use my business' IP?

If you want to allow your clients to use your business' IP, that use should be recorded in a licence signed by your clients or in your business' terms and conditions depending on which document best suits your business. The document will set-out what the client can and cannot do with your business' IP and it will set-out your liability if there are any third party claims against your clients due to their use of your business' IP.

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Section 5
Protecting intangible assets and intellectual property

Different types of IP rights

There are several different types of IP rights and – depending on what type of asset you want to protect – you'll need to use a particular one. So you might find yourself doing something as simple as registering your domain name. Or something as complex as applying for a patent to protect an invention.

Different types of IP rights are used to protect different types of asset:

- Copyright – protecting content, software and other intangible assets
- Trademarks – protecting your business, product and service names
- Domain name registration – protecting your business' internet address
- Protecting confidential information, trade secrets and know-how
- Patents – protecting your inventions
- Registered design rights – protecting your designs
- Database right – protecting your data

1 Copyright – protecting content, software and other intangible assets

Copyright protects several different kinds of assets, from an advertising jingle to the format of your website, from apps for your customers to your software sales platforms, even your business brochures and business logo. To qualify for copyright protection, all these assets have to be original,

in other words, not copying assets of other businesses or individuals.

You don't need to fill out any forms with the UK Intellectual Property Office (IPO) to obtain copyright protection for your asset. It arises automatically once the asset is recorded in a permanent form, which includes soft as well as hard copy. Putting the copyright symbol © with the year of creation and the name of your business on your asset will put others on notice that the asset is owned by your business, that you value it and will enforce your copyright in it if they are tempted to copy it.

Protecting and using software

If your business develops software to sell or use in your business, the source and object code of the software will be protected by copyright. During the development process, it is important to know if anyone is creating software using open source tools. Certain open source licences require you to disclose the source code to the whole programming community, which could risk trade secrets or your code being copied by others.

Your business is also likely to be using software created by others, such as your operating system. This will be protected by the copyright of the creators of that software. This means

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you must ensure you have the correct licences so that you are not infringing anyone else's copyright.

If your business is developing software, patent protection may be available for your software. Patenting is highly technical, so make sure you get expert advice from a patent attorney.

2 Trademarks – protecting your business, product and service names

Your business will have a new, creative name to make it stand out in the market place. Alongside this, you may also have a logo and names for your products and services. Your business name, product and service brands and logos may all be protected by trademarks.

However, unlike copyright, trademarks do not arise automatically. To stop anyone else using your business' name in the same sector or field of activity you need to apply to the IPO for registered trademark protection.

Choosing your business name

When you choose a name for your business, you need to make sure no other businesses are using the same or a similar name in the same or a similar field of activity because you must not infringe another business' trademark. You ideally need to instruct a trademark attorney to conduct a search to check this point. However, you can also check the UK trademark register yourself by searching online to see if there are any prior trademark registrations in your business name or brand.

Must be non-descriptive

To qualify for trademark protection your name must be distinctive in that it does not describe what your business does. For instance, there is no trademark protection in 'professional advisers', but there is trademark protection in 'KPMG' because KPMG does not describe the services that we offer.

Think about your goods and services

When making your trademark application, you need to think about how your business is going to use the trademark. This is because you will only obtain trademark protection in certain groups of goods and services and your application needs to identify the relevant groups of goods and services. There are currently 45 classes of goods and services.

Extent of protection

As a trademark is a registered right, it will only protect your name in the country in which it is registered. For example, a UK trademark only protects your business name in the UK and not France. There are European and international registration systems which provide wider protection. Think about which countries your business is going to operate in and then decide where you need trademark protection for your name.

Costs

The cost of a UK trademark is currently upwards of £200, depending on the number of classes you want to register your trademark in. There is a £30 discount for registering online.

3 Domain name registration – protecting your internet address

Your domain name will protect your business' internet address and ensure that your customers can find your website easily. You will need to apply to an accredited registrar to register your domain name and ensure that no other business has registered it before your business. You could consider the new top-level domain names, which give you an opportunity to personalise your domain name further. For example, you could change the extension, such as '.co.uk' to '.shop' or '.marketing' or even use your brand name as a domain name e.g. 'macdonalds.restaurants' or 'amazon.books'.

4 Protecting confidential information, trade secrets and know-how

Your new business will generate trade secrets and know-how, including your particular way of operating your business, manufacturing your products or providing your services.

Confidential information and trade secrets cover the inside knowledge held by you and your employees (and possibly others, such as investors and contractors) of the way your business operates or the way your goods and services work. It includes things such as the lists of your suppliers and customers and your processes (how to respond to order, for example).

It is important to keep this information confidential. This can be done using:

- Strong practical controls, such as limiting the employees who have access to the whole or parts of new inventions
- Robust data security systems

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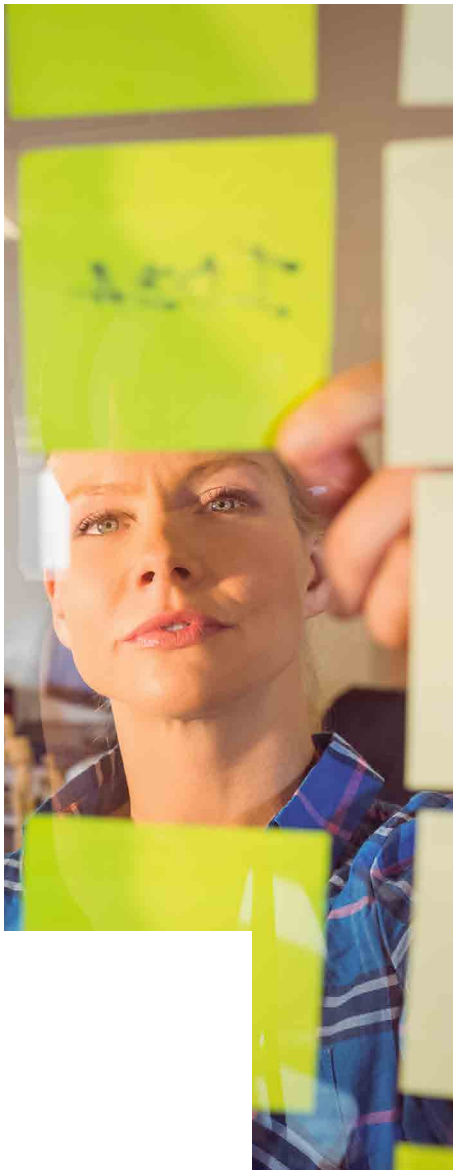
Section 5
Protecting intangible assets and intellectual property



- Restraints in employee contracts
- An information classification policy that is followed by all employees.

If you are discussing trade secrets and know-how with third parties such as investors, suppliers and potential customers, make sure you have a non-disclosure agreement in place, limiting what they can do with the information you share.

5 Patents – protecting your inventions

Your business may have an invention for a new product or process that no-one else in the world has created before. If it does, you could consider applying for patent protection. As an example, you may have patents for algorithms protecting functions of your website.

A patent will protect your invention and ensure that no one else can benefit from it. They will not be able to use the same process or sell the same product without your permission.

Specific requirements – novelty

To qualify for patent protection your invention needs to meet specific requirements. In particular, it must be novel and not part of the 'prior art'. This means that no details of your invention should be disclosed outside your business unless under a non-disclosure agreement. It is also not possible to patent an idea, but only the practical interpretation of that idea once it is proven to work.

As with trademarks, patents need to be registered. This process is very technical and you should seek patent attorney advice when applying for a patent. Having a patent may be enough to deter others from using your invention for their own benefit, but there are costs associated with defending a patent which you should also take into account.

Geographical extent of protection

A UK patent will only protect your invention in the UK. To extend patent coverage, you will need to seek patent protection via European and international registration systems.

Patents versus trade secrets

Patenting is an expensive and lengthy process, so often protecting an invention as a trade secret can be preferable, especially as patenting involves disclosing the details of your invention into the public domain via the patent register.

Your business may have a new product or process that no-one else in the world has created before.

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Costs

If you decide to patent, there is an initial application fee of £30 (£20 if filed online) and it costs £230–£280 to process the patent. However, the fees of a patent attorney will be considerably more than this.

6 Registered design rights

Protecting your designs

Any new design or 2-D logos may be protected by applying for registered design rights. Novel 3-D designs are protected automatically by unregistered designs. If you register your design it is easier to enforce the design against any infringers as there is independent evidence that you are the owner of the design and when it was created.

UK registration does not automatically result in Europe-wide protection, which will require a further registration via the Community Design Right.

7 Database right – protecting your data

Your new business may create databases holding information such as customer data, the list of your suppliers or a list of creators. If your business invests and controls the development of the database, it will be the owner of the database right. This is a European right and does not offer global protection.

You should think about data protection around the data you collect and hold. More guidance is available on the website of the Information Commissioner's Office.

IP checklist

No.	Action	Tick
1	Ensure that your employee contracts contain IP transfer provisions/confidentiality restraints	
2	Ensure that your external contractor contracts contain IP transfer provisions/confidentiality restraints	
3	Put the copyright symbol, year of creation and your business name on all materials	
4	Conduct an online trademark search before deciding on a new business name and then consider applying for a registered trademark to protect your business name	
5	Apply for a domain name	
6	Develop a standard non-disclosure agreement for use when disclosing confidential information to third parties	
7	Check your data security systems, particularly if you are developing know-how and trade secrets	

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Section 6

More information

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The power of networks

Many startups find that collaboration provides significant benefits to the business. Expanding your network and knowing the right people is important. There are a variety of ways to go about this but the London startup scene (as well as other startup clusters around the UK) has much to offer, including a plethora of events that you can attend, pitch at or even speak at to help you reach new contacts.

KPMG Enterprise regularly organises events and drop-in sessions to help you grow your business as quickly as possible.

Events and Drop-in sessions

Subscribe to our newsletter for regular updates of our upcoming events and drop-in sessions by emailing enterpriseclub@kpmg.co.uk

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Section 6
More information

Considerations before joining an accelerator

London and the UK is now home to many accelerator programmes. Some of these programmes are fantastic and can add a huge amount of value, others may not be appropriate for your type or stage of company. Before applying to a programme, there some things to consider:

- What do you need from the programme?
- What does the programme offer?
- What does the accelerator get out of the programme?

1) What do you need?

Before applying to a programme, it is important to understand what you currently need. If you can identify the major issues holding your startup back, you can then begin to address them. Some common answers are:

- I need a co-founder
- The product is not ready yet
- We need funding
- We are great at tech but don't know the business side
- We don't have customers, etc…

2) What does the programme offer?

There are lots of accelerator programmes out there. Before you apply you need to understand what the accelerator can do for you. Most accelerators will offer a similar set of services:

- Mentors
- Pitch training
- Customer access
- Funding
- Access to Investors, etc…

There are also more specialised programmes that can help you technically or find you a co-founder.

We are now halfway there. Before continuing, have a look at your answers to question 1 and compare them to the answers for question 2. In other words, can the accelerator actually help you? Make sure that the accelerator addresses the issues that you have identified.

3) What's in it for the accelerator?

Each accelerator will have different motivations, most are for-profit companies and are looking to benefit from your participation. Here are some of the common types:

- Private Programme: - Fees/Equity
- Corporate accelerator: - Equity/Marketing/Innovation
- Social Enterprise/Government:- Equity/Economic Empowerment

Before signing up to join the programme, you need to make sure that your objectives are in-line with the accelerator's. Here are a few things to consider:

- If you join a corporate accelerator in your sector, you may gain one client (the corporate) at the expense of the rest of market who will no longer work with you.
- If the programme is purely fee-based, what is their incentive to help you after the programme?
- If they are taking equity, are the terms fair and can the accelerator provide any follow-on funding?
- If it is a government programme, are you going to have to prove that you are creating new jobs or bound to other admin?

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More information

There's lots of more detailed information online on many of the topics covered in this guide. Here are some essential links.

Financial operations

Choosing a legal structure
Advice on setting up a business –
The Department for Business, Innovation and Skills
www.gov.uk/browse/business/setting-up

Guidance on incorporation – Companies House
www.gov.uk/government/collections/companies-house-guidance-for-limited-companies-partnerships-and-other-company-types

Guidance on PAYE record keeping
www.gov.uk/paye-for-employers/keeping-records

Getting talent on board

Checking legal right to work
www.gov.uk/legal-right-work-uk/

Written statement of employment
www.gov.uk/employment-contracts-and-conditions and change weblink to Information Commissioner's Office to https://ico.org.uk/for-organisations

National Minimum Wage current rates
www.gov.uk/national-minimum-wage-rates

How to register as an employer
www.gov.uk/register-employer

Basic PAYE tools
www.gov.uk/basic-paye-tools/download-for-this-tax-year

Enterprises Management Incentives
www.hmrc.gov.uk/manuals/essum/ESSUM50000.htm

Right to work documents
www.gov.uk/check-job-applicant-right-to-work

UK visa sponsorship for employers
www.gov.uk/uk-visa-sponsorship-employers

Dismissing employees
www.acas.org.uk/index.aspx?articleid=1797

Funding options

Tax relief for investors: SEIS and EIS
More information about SEIS and EIS
www.gov.uk/seed-enterprise-investment-scheme-background

More information about government grants
www.gov.uk/government/publications/the-enterprise-investment-scheme-introduction

Compliance and tax reliefs

Guide to corporation tax
www.gov.uk/corporation-tax

Guide to VAT rates
www.gov.uk/rates-of-vat-on-different-goods-and-services

Audit exemptions
www.gov.uk/audit-exemptions-for-private-limited-companies

Protecting intangible assets and intellectual property
Open source licences – The Open Source Initiative
www.opensource.org

Guidance on data protection –
Information Commissioner's Office
www.ico.org.uk/for_organisations/data_protection

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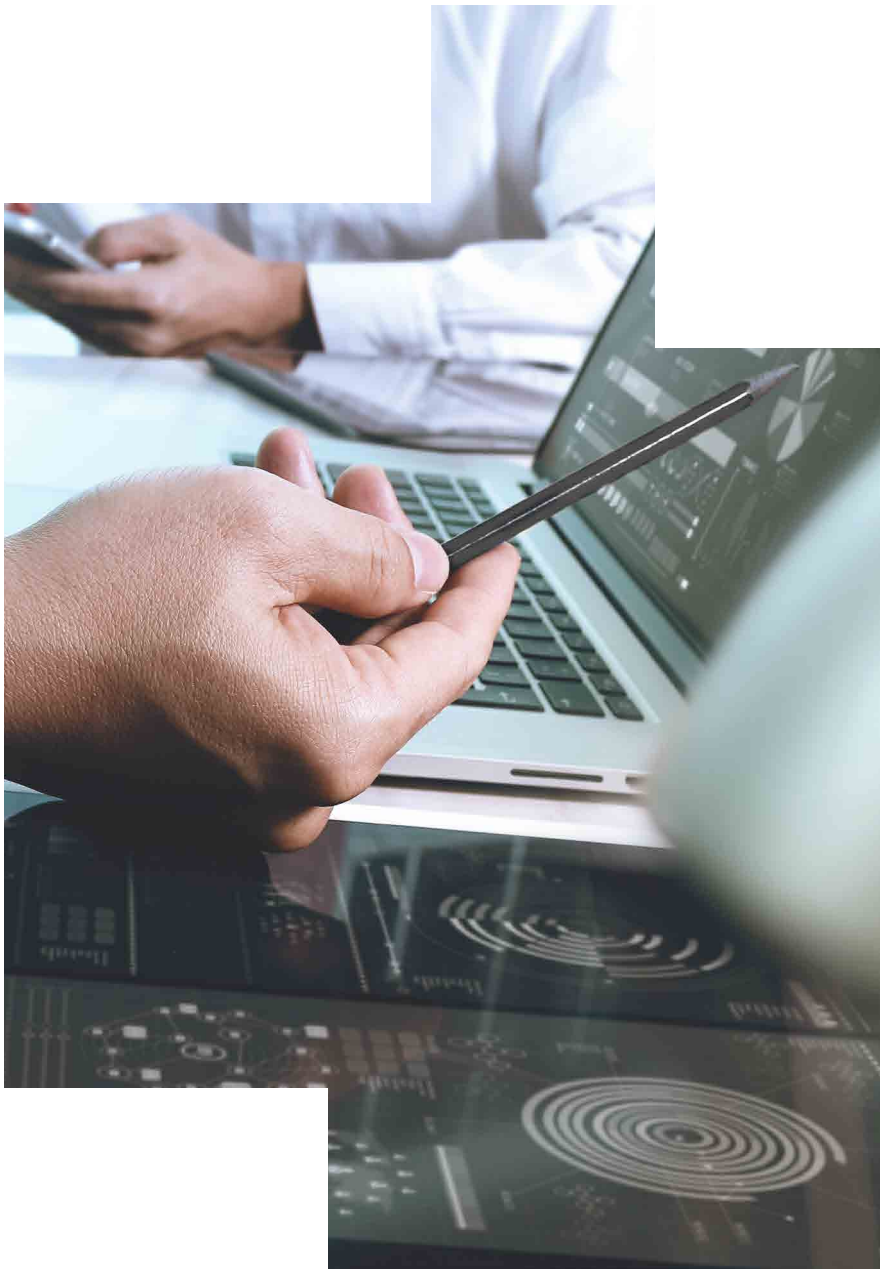
Section 7

Other considerations



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Cyber Security

UK SMEs are underestimating the impact a cyber attack could have on their reputation and must take steps to protect it – this was one of the key findings of the Government's report on Small Business Reputation and the Cyber Risk.

Traditionally cyber security has been a risk associated with big business, as the threats have come from sophisticated hackers. However, as the global digital landscape has become more accessible, the range of threats has extended and protection cannot be taken for granted. At the same time, the availability, scalability and convenience of cloud services have meant that these solutions have become the norm for startups who are looking to rapidly and economically build their IT infrastructure. Many of these services have aspects that are open to the wider public and hold sensitive data. Cyber security is therefore becoming a risk that needs to be considered early on for a fast-growing company.

In the digital economy, the valuation of a business is based heavily on its intangible assets, whether this is digital intellectual property (IP), customer information, transactional data or other similar data assets.

A breach of this data could lead to competitors gaining access to valuable IP, loss of customer trust and/or potential legal and financial implications. For this reason, growing companies can't afford to ignore cyber security.

Cyber security is by no means an all or nothing approach but should be something that scales as the business grows. Over the next few pages, we aim to demystify some of the key elements of cyber security that are relevant for fast-growing tech businesses and help you ensure that you are starting to take the necessary steps to improve your cyber security environment.

For more information download our Startup Cyber Guide at https://www.kpmgenterprise.co.uk/perspectives/the-startup-cyber-guide/

Going Global

Entering foreign markets can be daunting, whether you are taking your first steps or broadening your existing international operations. Each new territory comes with its own financial, fiscal, legal, regulatory and cultural complexities.

Tackling these issues can be particularly tricky for startups, who may not have the resources of a large corporate.

That's why we've produced Going global, our step-by-step guide will support you through the process – whichever stage you're at. It's based on our long experience of helping mid-market firms like yours to expand abroad.

Going global sets out the four key phases of foreign expansion

1. **Exploring** the international opportunities available to your business
2. **Developing** operations in your chosen overseas market(s)
3. **Governing** a global organisation
4. **Evaluating** your foreign ventures

Our report includes insight from our expert advisors to help you answer the following key questions:

- Why expand abroad? What are your international ambitions? Are they in line with your overall strategy?
- Where to start? What does the data say, and about which markets? How well do you know the territories you're thinking of going into?
- How to move forward? Will you enter your target markets organically or via acquisition?

For more information download our Going Global report at

https://www.kpmgenterprise.co.uk/going-global/

Road to Exit

Are you considering the next stage in the evolution of your business?

Exiting your business be it an IPO, trade sale, private equity investment or family succession, can be a once in a lifetime event so it's vital to do it right. Despite that, we continue to see companies under-prepare or leave themselves vulnerable to price chips - and ultimately leave money on the table.

Maximising business value is critical to success. Get the inside track and develop a sound strategy with our comprehensive Road to Exit guide written by our award-winning deal experts.

For more information download our Road to Exit Guide at https://www.kpmgenterprise.co.uk/road-to-exit

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For further information on KPMG Enterprise, visit:
https://www.kpmgenterprise.co.uk/innovative-startups/

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No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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