

information

Starting a business

This information sheet provides a brief introduction to starting a business and self employment. It includes a list of further reading and useful contacts.

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1 Starting a business

1.1 Why start your own business?

Starting up on your own can enable you to:

- ≡ be your own boss – in control of your career and creative practice
- ≡ be professional – having self-employed status in order to secure work
- ≡ work flexibly – allowing you to accommodate family and other personal responsibilities
- ≡ gain greater financial reward – to make profit from your business in addition to earning a wage

1.2 Planning

First steps towards setting up a business should include:

- ≡ an assessment of your current skills – technical, organisational and communication
- ≡ research into similar businesses to help you establish the current level of demand and competition
- ≡ investigating legal issues relevant to your proposed business – eg copyright, design rights, health and safety regulations and insurance
- ≡ preparing a business plan to determine if your idea is feasible and financially viable

You may find some of the other Arts Council information sheets useful for general guidance and contacts for these areas, these are listed at the back.

Local Enterprise Agencies, small business advice services and other support organisations may provide free training and information. Contact details for some useful organisations are listed at the end of this sheet.

1.3 Business plans

A business plan is simply a planning tool to help you document your vision and how you will achieve it. Be aware that a business plan is a living document, which means that you will need to keep it up-to-date as your business expands. Business Link provides some more detailed advice on business plans on www.businesslink.org and through their advice service (see useful contacts).

A business plan covers:

- ≡ business objectives – your vision
- ≡ outline of the products and services you intend to supply
- ≡ demand – customers, competitors and your unique selling points
- ≡ marketing plans – pricing, promotion and related costs
- ≡ finances – estimated sales, overheads, cash flow
- ≡ organisational issues – premises, staff, equipment, IT support
- ≡ success criteria – both business and personal
- ≡ synopsis of the key points of your entire plan (executive summary) for those who have limited time to read the full document.

1.4 Business structure

Your choice of business structure will depend on the type of business, any inherent risks, industry stipulations and your own preference. The structure you select will affect:

- ≡ the records and accounts you have to keep
- ≡ your financial liability
- ≡ the tax and national insurance that you pay
- ≡ how your business can raise money
- ≡ management structure and how decisions are made.

Common business structures include:

Sole trader

This is the most basic business form of self-employment with no start-up costs. A sole trader is taxed as a self-employed person and can claim business expenses against profits. They are personally liable for any debts that the business incurs.

Partnership

This is where two or more people run the business and share the risks, costs, profits and decision-making on an agreed basis. Each partner is self-employed and personally responsible for all debts run up by the partnership as a whole. A written agreement between the partners is essential.

Limited liability company

A limited company exists in its own right, distinct from the shareholders who own it and share the profits (usually in the form of dividends). It is expensive to set up, but the directors' personal assets are not at risk should the business fail (unless they have traded fraudulently). Limited companies must register and file accounts with Companies House (see contacts), and are liable for corporation tax.

1.5 Registering with the authorities

Depending upon your business structure at the start of your business, you will need to consider:

Tax

To avoid penalties, you must register as self-employed with the Inland Revenue within the first 3 months of trading. Once registered the Inland Revenue will send you a self-employment number that must be quoted on all your invoices.

National insurance

The Inland Revenue will also arrange for you to start paying self-employed flat rate (Class 2) National Insurance contributions (NICs) throughout the year. NICs are collected by the Inland Revenue and give you entitlement to benefits including state pension, maternity and unemployment benefits. If your profits are over a certain threshold you will also have to pay Class 4 NICs.

VAT

If your business has an annual income of more than *the current threshold* you must register for VAT with Customs and Excise. Once registered you must charge your customers VAT and submit regular VAT returns.

Employees

Sole traders can take on employees just like any other business. If you employ people, including any directors of a limited company, you will need to be aware of employment legislation including the need to deduct income tax and National insurance contributions from their pay (via PAYE payroll scheme) and pay these to the Inland Revenue.

Working from home

You may have to pay business rates to your local authority on the part of your house that you use for work and pay council tax on the rest of the property.

The decision to charge will depend on the degree of commercial use. For example, operating a business from a desk in your bedroom will not incur business rates, as the main use of the room would still be domestic.

Finance and record keeping

Although not compulsory, operating a business account will keep your personal finances separate from the business and present a more credible status.

- ≡ Look for banks that do not charge for 'managing' your business account.
- ≡ Arrange any overdrafts/loans well in advance to avoid unnecessary charges.
- ≡ Ensure you keep accurate up-to-date records of income (sales) and expenditure (purchases, expenses and wages).

Remember, the Inland Revenue has the right to look at your business records and therefore you will need to keep them for at least six years.

1.6 Cash flow

Many businesses fail in the first few years due to cash flow problems. It is essential to take a professional approach to getting paid.

Remember to:

- ≡ confirm all orders or commissions in writing
- ≡ agree payment schedules in advance and include the detail in a contract
- ≡ send invoices promptly and statements to chase late payers
- ≡ follow up any overdue invoices immediately by telephone and letter/email

Remember that getting paid is only part of the story – regularly monitor your income against projected expenditure and adjust your charging to reflect realistic overheads and time spent.

1.7 What is profit?

In very broad terms, profit is income generated less costs of running the business but excluding any money you draw out yourself.

Many business costs and expenses can be offset against tax. Take advice from a professional on how to deal with such matters to optimise your income.

Note that there are special rules for dealing with equipment purchased.

1.8 How does tax work?

A self-employed person pays tax based upon the profit generated by the business.

In the April after your business starts the Inland Revenue will send you a self-assessment tax form to fill in covering the year from the previous 6 April to 5 April.

This is used to calculate the amount of tax that you owe and any profit related (Class 4) National Insurance contributions you may need to pay.

1.9 Common mistakes when starting up

- ≡ unrealistic expectations of what you can achieve
- ≡ poor market research
- ≡ weak financial planning
- ≡ failing to seek professional advice
- ≡ poor balance between time spent on artistic production and marketing/sales generation
- ≡ over-investing in equipment – unnecessarily tying up capital
- ≡ overheads eg workspace/office too expensive
- ≡ poor credit control – not getting paid on time

2 Further information

2.1 Useful contacts

This section lists contact details of organisations that may be able to provide more in depth advice and guidance on starting a business.

a-n The Artists Information Company

7-15 Pink Lane
Newcastle upon Tyne NE1 5DW
Tel 0191 241 8000
info@a-n.co.uk
www.a-n.co.uk

UK information and advocacy organisation for professional visual artists. Publishes a-n magazine and www.a-n.co.uk, which includes an introduction to self employment, examples of artists' business experiences and the artist's fees toolkit.

apd Artists Professional Development Network

apd@a-n.co.uk
www.apd-network.info

UK-wide forum for organisations that are pro-actively developing information, advice, training and professional development services for visual and applied artists.

Artquest

University of the Arts London
65 Davies Street
London W1K 5DA
Tel 020 7514 6493
stephen@artquest.org.uk
www.artquest.org.uk

Source of advice, information and support to London's visual artists and craftspeople including useful web based guide 'Seven steps to self employment/business start-up'.

Bplans.com

www.bplans.co.uk

Produces articles, tools and web-based resources designed to help the user work through the process of writing a business plan.

British Chambers of Commerce

info@britishchambers.org.uk
www.chamberonline.co.uk

Website includes map of all local Chambers of Commerce based in UK.

Business Link/Small business services

Tel 0845 600 9006
www.businesslink.org

Supports small businesses at a regional level through practical advice and information.

Companies House

Crown Way
Maindy
Cardiff DF14 3UZ
Tel 0870 333 3636
enquiries@companies-house.gov.uk
www.companieshouse.gov.uk

Responsible for the registration of all companies. Searches can be made on company names.

Crafts Council

44a Pentonville Road
London N1 9BY
Tel 020 7278 7700
Fax 020 7837 6891
www.craftscouncil.org.uk

National organisation responsible for the promotion of contemporary craft. Website includes useful section on 'How to run a crafts business'.

CreativePeople

PO Box 2677
Caterham CR3 6WJ
Tel 01883 371112
info@creativepeople.org.uk
www.creativepeople.org.uk

National network providing information, advice and guidance to support all those who work in arts and craft industries in making the most of their careers.

Design Trust

9 Burgess Hill
London NW2 2BY
Tel 020 7435 4348
Fax 020 7435 5487
www.thedesigntrust.co.uk

Publishes downloadable version of the 'Design Trust Business Start-Up Guide'.

DTI Department of Trade and Industry

1 Victoria Street
London SW1H 0ET
Tel 020 7215 5000
Fax 020 7222 0612
www.dti.gov.uk

Government body providing a wide range of free publications for setting up in business.

The Enterprise Centre for the Creative Arts

London College of Communication
Tel 020 7514 7985
Fax 020 7514 8896
info@ecca-london.org
www.ecca-london.org

Detailed website (primarily for design professionals) on various aspects of good business practice. Ex-students of the University of the Arts London colleges also have access to free services and one to one advice sessions.

Federation of Small Businesses

Tel 01253 336 000
www.fsb.org.uk

Annual subscription buys a range of services for the small business including 24 hour legal and tax advice, legal cover and good value deals on insurance.

HM Customs & Excise VAT Advice Centre

National Advice Service Tel 0845 010 9000
VAT Registration Tel 0345 112 114
www.hmce.gov.uk

Provides advice on VAT, Customs, Excise and related matters.

Inland Revenue

Helpline for newly self-employed Tel 0845 915 4515
New employers helpline Tel 0845 607 0143
Tax helpline Tel 0845 900 0444
www.inlandrevenue.gov.uk

Essential reading covering all aspects of starting up and running a successful business from initial planning to filing returns, with online registration facility for self-employment.

www.inlandrevenue.gov.uk/bst provides information on local business support teams offering training and free confidential help.

Learning & Skills Council

www.lsc.gov.uk

Network of local councils responsible for funding and planning training for the over 16s in England including business related courses.

National Federation of Enterprise Agencies

12 Stephenson Court
Fraser Road
Priory Business Park
Bedford MK44 3WH
Tel 01234 831 623
Fax 01234 831 625
enquiries@nfea.com
www.nfea.com

A network of independent not for profit local agencies providing support for start-ups, micro-businesses and the self-employed.

Contact

Information and enquiries

Arts Council England

14 Great Peter Street, London SW1P 3NQ

Phone: 0845 300 6200

www.artscouncil.org.uk

www.artscouncil.org.uk/enquiry

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