

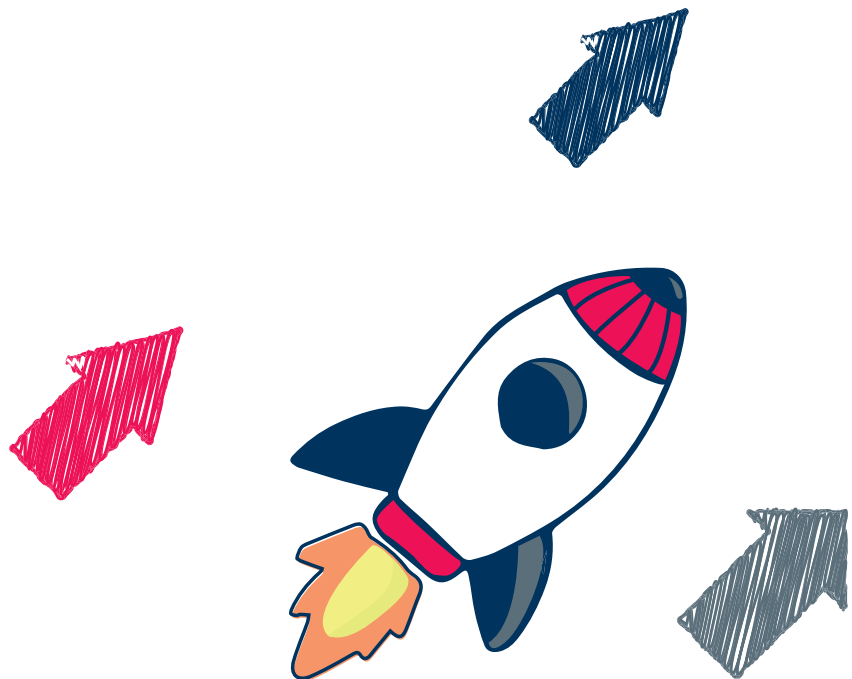


Helping Businesses Grow Since 1997

Create a Direct Selling business and enjoy the benefits

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Introduction

It's an exciting time to be an entrepreneur... The rewards and tax advantages of working for yourself from home far outweigh all the perceived problems... and you'll be joining over 5 million like-minded people who also want to benefit themselves not the businesses which employ them.

In this book I'm going to talk about why you should be building a business, why you should ignore those doubting Thomases who prefer to be taxed to the hilt on a salary rather than enjoy the spoils of self-employed tax breaks, and I'm going to educate you and open your eyes to all the perfectly legitimate expense claims you can make.

If this means a change of attitude, a new way of thinking, that's great, come aboard the business battle bus and enjoy the ride.



Why A Business?

Warren Buffet, that mega successful business investor, said “Never depend on one income, make an investment to create a second source.” So why not build a home-based business alongside your employment, and then jump ship when the time is right, as sooner or later it will be...

There are two tax systems in the UK, one for employees which is manna from heaven for all governments, easy to raise and equally simple to collect, or a second version which aims to encourage and support SME's which in many ways are the backbone of the economy, and you can be in the second group if you choose.

What about pride of ownership as an incentive? Build for your future, for retirement in place of dubious employee pensions scheme, for recognition and self-esteem... and throw in a few material things along the way, a new home, cars, holidays... a new lifestyle maybe? All of these can come from creating your own business.

One of the most noticeable changes from employment to self-employment is that you can now choose when to work, note that's “when” and not “if”, as hard work is absolutely essential to get a business off the ground, whereas later on hard work can be shared with free time. It's worth noting that whereas in employment hard work is expected and regularly goes without reward, in your own business you can see and enjoy the results as well as having more time to spend with family and friends.

Let's sum up why you should have your very own business -

- A second source of income to replace employment in due course.
- Higher net income from better tax arrangements.
- Building for a better future now and in retirement.
- Time and money freedom, a better lifestyle.

If you don't relate to any of these aspirations, then stick to your job and make money for your boss – he or she will be very happy with that arrangement!

Types of self-employed businesses

1. Traditional

This would either involve making and selling a product or providing a service. Both of these versions are likely to require premises other than your home in which to operate and are also very hands on with the option later on of employing staff. What do these considerations mean? More cost and more responsibility, and a real commitment of your own time.

2. Franchises

These are operations based on selling someone else's idea and paying for the privilege in two ways - an initial lump sum and an ongoing royalty. The trouble with the lump sum is that usually there is no tax relief on this payment, it is just held as a cost to be offset against a later sale if the franchise rules allow this. There are big and small franchises, McDonalds or Domino Pizza are examples of larger versions, and there are plenty of small ones providing, for example cleaning, repairing and gardening services from home.

It's not really your own business and you are dependent on your franchisor for stock and sales promotion. Not an ideal situation with upfront costs without tax write-offs to cover before any income kicks in.

3. Network Marketing

Now here's an interesting concept – be self-employed and work from home, sharing and selling products or services as a distributor for a direct selling company, and be rewarded by a retail profit and commission on sales by anyone else you train to do the same as you, and further down the line too! This is a team game, in business for yourself but not by yourself. Sharing products rather than selling them, and recruiting others to do the same, even encouraging them to do better than you. No rivalry, no opposition, always help and support... not exactly what goes on in traditional businesses!

With a 50-year history, and some 400,000 UK distributors split amongst 40 odd companies, network marketing is here to stay. Do your own due diligence to find a product or service which appeals to you, there's plenty of choice in nutrition, fitness, jewellery, clothing, cosmetics, slimming etc., and get started. If you have no contacts your chosen company will be certain to find you a 'sponsor' and he or she will be delighted to show you the ropes... it's in their interest to make you a success!

Tax planning

As I said earlier the UK has two different classes of tax and you as self-employed will enjoy the benefits of self-assessment and avoid the tribulations of PAYE. Self-assessment means that you will tell HMRC what you owe, or in some cases what HMRC owes you!

You or your accountant present the taxman with your annual tax returns which includes a statement of your income, expenses and profit and loss. A loss at the beginning is perfectly normal as you can claim expenses right from the start even before income kicks in. The important thing is to ensure you claim all the legitimate expenses – here's a long list –

1. Wholesale cost of products whether purchased for retailing to customers or to hand out as free samples which encourages people to become customers or to join.
2. A partial cost of home expenses. Rent, council tax, heat and lighting etc., because your home is now also your office.
3. Motor expenses, either on a mileage basis or a business proportion of running costs and a 'capital allowance' on the purchase price.
4. Other travel costs, UK and abroad, including flights, hotel costs for business trips and events, subsistence etc.
5. Office administration – stationery, printing, postage, computer maintenance and software.
6. Telephone – landline and mobile business use, say 80%.
7. Advertising and PR costs, website and back office programmes.
8. Training courses, books, CD's etc. in both company matters and personal development which is very much a part of the industry.
9. Finance costs and interest on business bank or credit card accounts.
10. Capital purchases, office equipment and furniture.
11. Casual wages to friends or family who help the business. Teenage children are perfectly entitled to a wage in lieu of pocket money provided they genuinely work, and you genuinely pay them and keep a record. What can they do? Answering phones, filing paperwork, posting mail or samples, and cleaning.
12. Professional charges including accountancy and legal fees.
13. (Unless you are superstitious) There's bound to be a miscellaneous heading to pick up odds and sods which don't easily fit anywhere else. What about flowers or champagne for a successful downline? That's a tax allowable cost!

This is a long list so do make sure you claim for all the categories which apply to your business. There are two important principles here, firstly keep all bills and receipts for later inspection if HMRC query items. If you do not get a bill for a particular expense make one out yourself showing date, description and amount. The second principle is always to be able to justify the business reason for an expense. If you follow these two principles for all expenses, HMRC will have no cause to complain.

Business structures

Sole Traders

This is the most commonly used starting point – you on your own with an ID from your chosen company, and a unique taxpayers reference (UTR) following registration with HMRC. You'll be able to make a full claim for S/E expenses and file your own self-assessment tax return.

Partnerships

As above but with you and your spouse or business partner working the business together. There is no need for a legal agreement with your spouse presumably (!) but with a business partner you should at least have a head of agreements setting out profit sharing, drawings and what to do in a dispute.

You claim expenses in the normal way and file a partnership as well as individual tax returns. You can share profits and losses in any way that you, and not HMRC, choose. As with sole traders tax is assessed on business profits and not on money taken out as drawings.

Limited Companies

This requires a much more formal structure with accounts being filed annually at Companies House as well as with HMRC. There is still a tax advantage by running your business as a Limited Company although this is much less now than in previous years. There are also extra costs, but you do have personal protection from creditors in the event of failure.

Talk to your accountant to see if your business would benefit from being 'incorporated' as a Limited Company. Your personal income can be taken from the company as a salary or as dividends which will be geared towards giving you all possible tax advantages.

Tax refunds

Do you remember PM Margaret Thatcher? Well, back in 1988 she wanted to encourage entrepreneurs so introduced the following tax arrangements. During the first 4 years of a new business the taxpayer can offset any self-employed loss against other forms of income which have been taxed at source, usually this would be a salary taxed under PAYE, in the same or previous year. This can lead to an automatic tax refund.

So imagine that in your first year you incur expenses of say £5,000 from buying products, motor and travel costs including an overseas conference, claiming some home running expenses and purchasing a laptop, and at the same time receive £1,000 from retailing products and receiving commission, you will have incurred a 'tax loss' of £4,000. You also have a salary of £20,000 and pay tax on this of say £1,500; by offsetting your loss to reduce your income you can then claim a tax refund of £800, more than enough to pay your accountant to claim it! In 2017 HMRC introduced an option for taxpayers whose turnover is below £1,000 not to file a self-employed tax return – officially to make life easier for taxpayers, but I suspect also to try and cut down on the number of repayment claims – don't fall into this trap – make the effort and claim what you are entitled to.

There's an extra advantage with a partnership because as I said before you and not HMRC choose the split of a loss between partners and so you can allocate this to the partner with the greater outside salary and maximise the refund. Then when the business becomes profitable you can change the split, allocating the profit to the partner with less or no outside income and minimise the tax bill. All this is perfectly acceptable.



Records

HMRC do not lay down a prescribed form of records. The only requirement is that all receipts and payments are so recorded that the end result for an accounting year (or shorter period) accurately reflects the profit and loss. It is also a requirement that all bills and receipts are retained for a period of 6 years, and by implication these should be referenced and filed in such a way that an easy trace can be followed if a particular bill needs to be located from the accounting records.

Think of the accounts as a trail of paperwork, starting with each individual receipt and ending as a tax or VAT return. In between will be daily figures, monthly summaries and annual accounts.

Self-employed accounts can be prepared on either a 'cash' or an 'accruals' basis. Cash means recording income or expenditure at the time it is actually received or paid, whereas accruals required entries to be made on the date that sales invoices are raised, or purchase invoices received. Accounts can be on a simple income and expenditure basis with no need to also prepare a balance sheet unless, of course your business is being run as a limited company, where the regulations are quite different and full accounts are obligatory.

There should be a bill or receipt for each receipt or payment, but if after trying to obtain one this is not possible, then make one out yourself regarding its date and nature. If you are VAT registered, each payment must be supported by a VAT receipt, so when using your credit card for example, you must obtain a separate receipt showing the suppliers VAT registration number as the credit card slip will not. When you make sales, each invoice must show your VAT number and the VAT charged, and all invoices should be sequentially numbered.

If you are given bills by suppliers which do not show the VAT element separately, you can calculate this on the current rate of 20% by using the fraction $1/6$.

Filing paperwork is best done on a monthly basis, continuing a numeric sequence from month to month. Simply write in the top right-hand corner of the invoice the respective number, record the reference in your accounting records and years later you should have no problem finding it!

Retail sales are often recorded individually in duplicate receipt books, but if for example you are holding a home party generating multiple sales, you could group these together as one item in your accounting records – the individual receipts are retained in the duplicate book for future reference.

Warning

New accounting requirements are now coming into force as HMRC digitise their records. So far businesses with an annual turnover over £85k have had to file digitally for the tax year 2018/19, and other groups will follow soon although no dates have been confirmed. I suspect a few technical hitches, so please take advice from your accountant! At DSL we are fully accredited to carry out this work using current software 'cloud' programmes.

Business Plan

Being self-employed you might need to raise funds either to kick start or to expand your business, and here's where a business plan will be needed... This is not as difficult as it may sound, more a matter of putting yourself in the lender's shoes and coming up with the relevant questions and answers. At the same time putting a plan together will focus your mind on how best to take your own business forward... what do they say? Failing to plan is planning to fail!

Let's imagine you are the lender, what do you need to know and what comfort are you looking for? What's your borrower's background and experience? Is their type of business a sound idea? Is any security for your loan available? Can the business support a repayment programme? Over how long? Does your borrower need more than just financial help or advice? Lots of questions and if you can provide the answers within your plan, you'll have a good chance of successfully convincing the lending party to support your business.

A plan should have a number of sections to cover the Q and A's outlined above, here's my list

- 1. Introduction**
- 2. Background**
- 3. The market**
- 4. Management**
- 5. Future plans**
- 6. Finance**

1. The introduction sets the scene, covers the finance required, and interests the readers sufficiently for them to want to read all the detailed sections which follow. It's all about showing a positive mindset.
2. This is both your own background, qualifications and experience, as well as a picture of the industry and the member company you have joined, their products, compensation plans, and any future or foreign expansion plans. A positive growth picture!
3. The market in a direct selling business is up to you! You have the opportunity to sell the company's products or services, and to recruit a team which can give you extra income, a better lifestyle or even financial independence. Your plan should explain how income is earned and how retail sales are made – don't forget at the same time as giving comfort to your lender, you are laying down plans for yourself.
4. A management section should show your lender that you have the skills and experience to succeed and describe how your team will include key players to help.
5. Future plans can include setting up overseas teams in countries where your company operates and within the UK teaching and training meetings to compliment corporate events, and to build your own business. Chinese proverb 'Give a man a fish and you feed him for a day, teach a man to fish and you feed him for a lifetime'. Network marketing is all about sharing and teaching, so share with and teach your lender all the positives of your business at the same time as reminding yourself.

6. Of course, the finance section is key for the lender showing him or her how the business uses the funds, develops income, covers expenses and builds a surplus balance over time. More a marathon than a sprint but good positive trends as soon as income kicks in and paying off the original loan on time! A cash flow projection is a way of showing how money comes in and goes out each month with a moving balance as a result. Great for a lender to see and for you to plot the projection against actual results.



Your Opportunity

So, there you have it guys.... create a business and enjoy the benefits. Tax saving to put more money in your pockets, pride of ownership to give you personal satisfaction, freedom of choice for a better lifestyle for you and your family, and your very own pension plan to secure your retirement. Four very good reasons for having your own business and four very good results which flow from selecting this path. Delay no more.... start as soon as you can, you'll never regret it!

One thing more which has just arisen, and which has given you the opportunity of a lifetime.... let's call it "Direct Selling leads the recovery". As happens during an economic downturn, people losing jobs, being made redundant, downsizing income, often turn to direct selling for sanctuary and support. So it's your job, guys, to reach out and help all those in economic dire straits and by doing so you will benefit too..... this really is a classic win-win situation. All the reports coming across my desk recently speak of record recruiting and retailing figures since lockdown, so the opportunity for your own growth is right in front of you, and the great thing is you will be doing others a good turn too. Do not think it is always those at the bottom end of the scale who are suffering most..... far from it, it is often those who have seen a previously good lifestyle disappear who need your help even more. They have school fees to pay, big mortgages to fund and great holidays to remember. If you can help to put these folks back on the road to recovery what a worthwhile thing to have done. Direct selling is full of rags to riches stories, so now go and help to write some more!



The Direct, Simple and Logical
accounting partner to help
drive your business
forward.



Contact us today for Direct, Simple and
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