

TIP OF THE MONTH - SEVEN BUSINESS RISKS YOU MAY NOT REALISE YOU ARE TAKING

Running a small business is often about taking and managing risks. Market risks are normal but business and tax risks are another thing altogether. Most business and tax-related risks can be managed as long you know about them. Here are seven small business risks you will want to make sure are covered:

1. Best Choice of “Entity”

Are you operating as a limited liability company, LLP, partnership, or sole proprietor? More importantly, is the vehicle you are using providing you with the greatest tax benefits and separation from personal liability? If not, you might want to explore the alternatives to make sure you're taking the amount of risk that's right for you. In most cases we can run a few simple checks and provide you with a simple written report on the tax side.

2. Employees or Contractors

Are your 'workers' properly categorised when it comes to HMRC's rules about employees versus contractors? Unfortunately, it's not about what the two parties decide they want. If you either work as a contractor or hire contractors and HMRC asserts they are employees, one party could owe PAYE and NIC while the other could have many expenses disallowed; this sort of thing can cripple a small business. So you'll want to do the right thing up front and make sure you and HMRC are in agreement, or be willing to take a future risk. This gets even more complicated with “personal service companies” where HMRC have a history of trying to look at tax THEIR way.



3. Insurance

If you'd like to protect yourself from possible losses through a disaster, theft, or other incident, insurance can help. There are a lot of kinds to choose from, and you'll likely need more than one. At the minimum, make sure you're covered by:

- Business property insurance, and appropriate general insurance to protect your physical assets.
- Professional liability insurance, if applicable, to protect you from professional mistakes including ones made by employees.
- Employer Liability insurance, to cover employee accidents on the job.
- Car insurance, including if employees drive their cars for work errands.
- Public Liability Insurance



You may also want business protection insurance, life insurance, and health insurance. Champion Financial can help with most of this, but hopefully you already have an insurance broker to get a comprehensive list of options.

4. VAT Liability

Are you sure you're charging and collecting VAT where you should be and at the right rate? Have you considered flat rate VAT, or 'cash accounting'? If you trade abroad, we are still in the EU and sales may need to have VAT accounted for to foreign authorities at foreign rates. If you are not VAT registered you need to monitor the threshold, or if you'd be better off registered, you can register voluntarily.

5. Underpricing

Most small businesses make the mistake of underpricing their services, especially when they start out. If you started out that way, it's awfully hard to catch up your pricing to a reasonable level. Knowing the right price to charge can make the difference between whether the company lasts six months or six years. You can mitigate this risk by getting cost accounting help from your accountants who can help you calculate your margins and determine if you're covering your overhead and making a profit.



6. Legal Services

Legal services can be expensive for a small business, so sometimes owners cut corners and take risks. A lot of basic commercial help can come from us, but legal advice is needed most when it comes to setting up your business, particularly in setting out your terms of business as well as reviewing contractual agreements such as leases and loan agreements, settling conflicts, advising on trademark protection, and creating documents such as terms of service for those contractors above, employment agreements for those employees above (we can help quite a lot here), and privacy and data protection policies. Just one mistake on any of these documents can cost a lot, so be sure it's worth the risk.



7. Accounting Services

Doing your own accounting and taxes can be risky if they're done wrong or are incomplete. You could end up paying more than you should if you leave out deductions you're entitled to, and there are compliance risks for claiming what you are NOT entitled to. Worse, if you do your books wrong, you could end up overpaying taxes without realising it. One common bookkeeping error results in doubling sales, and while it might look good, you certainly don't want to pay more than for what's been truly received.

How did you do with these seven risks? If you need to reduce your risks in any of the areas, feel free to reach out for our help. I'm afraid this could have been entitled "10 risks", but we all have to draw the line somewhere!