

Guidance Sheet 3 – Financial Management

You may be delivering a much needed service in your community, this is what you specialise in, delivering your service will take up the majority of your time. However, do not neglect managing the financial part of your business. Managing money related to your business activity can be divided into two distinct categories:

1. Cash-flow, understanding how much money you need to run your business and how well it is doing.
2. Legal accountability

The key to good financial management is to keep your financial records up-to-date. This will provide you at a glance, with a good idea as to how you are doing and when financial issues are about to arise.

1. Cash-flow spreadsheet

All businesses require a certain amount of money throughout a start-up period and to keep them running. If you run out of money, you may find yourself in a situation where you are not able to operate e.g. you cannot buy essential supplies you need to run your business. So **cash-flow** is vital. This will help you to keep track and control of monthly income and expenditure. If you set it up right your spreadsheet will have most information you will need to complete your annual Self-assessment that you will submit to HMRC each year. Things to think about:

1. Set up a spreadsheet to record all your business income and expenditure
2. If you are able set it up to calculate the monthly balance this will help you to keep track of your exact financial position.
3. You may prefer to use bookkeeping software which you can buy.
4. Think about what business expenses you can claim back, e.g. advertising, work uniform, PPE, bank charges, work telephone, travel etc.
5. Other information you need to think about that will help you to complete your annual Self-assessment form for HMRC e.g. if you have other employment, income from other sources or in receipt of any benefits etc.

Further information

- Simple Spreadsheet template [Click Here](#)
- Self-Assessment [Click Here](#)

2. Legal Accountability - Sole Trader

As a Sole Trader you are self-employed and will need to set up your accounting system to record your income (money you earn from your business activity) and your expenditure (money you pay out to run your business.) Things to think about:

1. **Bank Account** - A Sole Trader is not legally separated from their business so a separate business account is not a legal requirement, however, a separate bank account helps to keep business finances separate from your personal finances. Having a dedicated business account makes it easy to record your business income and expenditure. This will make it far easier when you complete your Self-Assessment Tax Return for submission to HMRC. .
2. **Personal Allowance** - Everyone who works is entitled to Personal Allowance on taxable income. You do not pay tax on your Personal Allowance. This changes most years, so always make sure you have the right allowance rate for the appropriate tax year.
3. **Income Tax** – You will pay income tax on all income above your Personal Tax Allowance. The amount of Income Tax you pay will depend on how much income your business generates. This is broken into 3 tax bands, Basic Income Tax, Higher Income Tax, and Additional Income Tax on income over a certain level.
4. **NIC (National Insurance Contributions)** – Class 2 and Class 4
Class 2 is payable if you earn above a certain level each year e.g. financial year 2020-21 NIC payments are required if you have an income more than £6,475. This can change each year. If you earn less than this you can choose to pay voluntary NIC. By doing this you will not have gaps in your NIC record. Gaps mean you may not have enough years of NIC to get the full State Pension.
Class 4 is payable by self-employed people earning profits £9,501 or more a year (this may change)
5. **Ring-fence** (put aside) money from your income each month to go towards your annual tax bill and NIC. Don't get caught out at the end of a financial year and not have sufficient money in your business account to meet your Income Tax bill.

Further information

- Income Tax & Personal Allowance [Click Here](#)
- NIC Contributions payable [Click Here](#)
- Check you National Insurance records [Click Here](#)
- Voluntary National Insurance [Click Here](#)

3. Legal Accountability - Partnership

A Partnership can be two or more people coming together to run a business. All partners share responsibility for business activity and will pay personal tax to HMRC for their share of income generated by business, and the partnership will pay tax on overall profit generated by business activity. Things to think about:

1. When you form the partnership you will need to choose a Nominated Partner. This person will be responsible for managing the Partnership record keeping and making tax returns to HMRC.

2. The Partnership will need to register with HMRC.
3. Each partners is responsible for their individual NIC and Income Tax, this includes their share on the profits of the business.
4. A nominated partners is responsible for:
 - 4.1 Filing the partnership return each year
 - 4.2 Dealing with all matters arising from an enquiry into the partnership return form.
 - 4.3 Keeping all partners informed of the progress of the enquiry.

Further Information:

- Self-Assessment & Partnerships [Click Here](#)

4. Legal Accountability - Company

Limited companies are usually businesses that make a profit. This means the company:

1. Is legally separate from the people who run it
2. Has separate finances from your personal ones.
3. Has shares and shareholders
4. Can keep any profits it makes after paying tax

The company must have systems in place to carry out the following legal duties:

1. Register with HMRC as an employer.
2. The Company must pay at least the National Minimum Wage
3. The Company must run a monthly pay roll to pay employees
4. The Company is responsible for monthly payments to HMRC that include employee NIC and Employers NIC Contributions.
5. The Company is responsible for enrolling employees with a Workplace Pension Scheme unless an employee chooses to opt-out of the scheme. Contributions into a Workplace Pension Scheme are made monthly, a % contribution from the employee and a % contribution from the employer.

Further information:

- Register with HMRC as an employer [Click Here](#)
- Employing staff [Click Here](#)
- National Minimum Wage [Click Here](#)
- Running pay roll & HMRC payments [Click Here](#)
- Workplace Pension Schemes [Click Here](#)

Micro-care Development & Support

Rob Loudon, Micro-care, Planning & Development Officer

Telephone: 01352 701461

E-mail: Robert.loudon@flintshire.gov.uk

Micro-care Development Officer

Marianne Lewis, Micro-care, Planning & Development Officer

Telephone: 01352 702126

E-mail: Marianne.lewis@flintshire.gov.uk

Micro-care Development Officer

Business Support

San Leonard, C.E.O., Social Firms Wales

Telephone: 07799 345 940

E-mail: sanleonard@socialfirmswales.co.uk

Business Wales

Telephone: 03000 603 000

Website: <https://businesswales.gov.wales>