

Sports players – Starting your own business



Have you ever thought about how to generate more wealth whilst you are playing sport professionally? Are you starting to think about what you will do when you finish playing? We want to make sure that this initial step is in the right direction.

So you want to be your own boss. Your dream can become a reality. As a professional sports person you will already be familiar with hard graft, motivation, success and failure, perseverance against the odds, and gained the personal skills and coping mechanisms that a businessman utilises. However to achieve your business goal there are many crucial commercial, financial and taxation issues to consider.

In this leaflet, we hope to give you a step by step guide to the key factors when starting your own business. This is an overview however, and because each business opportunity is unique, we do recommend that you seek professional advice before you start.

Kingston Smith has helped many people start and develop successful enterprises. For an initial free of charge consultation call one of the members from our specialist sports team.



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Step one: You and your plans

Over 1,200 new businesses start up in the UK every day, but only a few succeed. 33% fail in the first year, 42% fail in the next two years and only 25% go on to make profits.

Such a high failure rate occurs because either the owner was not suited to self employment, the business was not commercially viable and/or insufficient attention was paid to the necessary financial planning at the outset.

If you are to achieve success, you will need:

- confidence in yourself and your abilities
- a viable commercial idea
- an adequate understanding of your market
- the right business format including sole trader, partnership or limited company
- thorough planning in all its aspects
- adequate financial backing
- a reasonable level of commercial & legal awareness

Only you can judge the level of commitment that you are prepared to make, be honest with yourself. Are you:

- able to take the rough with the smooth?

- prepared to work very long hours when necessary, even at weekends, possibly for little immediate benefit?
- a self-starter? (you won't get very far if you have to be told what to do)
- able to see yourself as your customers do, so that you can provide them with what they really want?
- self-disciplined? (there won't be anyone there to make you go to work every day)
- going to be reliable and responsible in all aspects of your business?
- able to develop the necessary management skills and make careful decisions under pressure?

You should also consider the position of your family and dependents:

- do you have their full support ?
- can you cope financially during those first
- months and years when you may not earn
- as much as you need or have done in the past?

Discuss your proposals with them and others to get their honest views.

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To find out more about Kingston Smith's bespoke services to the sector please visit:
www.kingstonsmith.co.uk/sports

Step two: Research

You also need to consider your long-term aim for the business. If it becomes reasonably successful, will you want to sell it or keep it to provide a secure income and an interesting way of life?

If you are truly positive about your plans, give some serious thought to their commercial viability.

Research is essential in this process and involves gathering together supporting evidence to convince you, your potential backers and customers of the viability of your business. It is also a basic ingredient of your business plan especially where you need to obtain external financial backing.

The cost of obtaining research can be expensive for a new business yet there is plenty of data freely available. For example, surveys and reports published by trade journals, banks, the DTI and various trade associations, and your local business links or the Princes Trust.

Websites you may find useful are:

www.businesslink.gov.uk
www.princes-trust.org.uk
www.smallbusiness.co.uk

Step three: Find the funding

Any business needs sufficient cash resources to finance its operations. The amount required depends upon the nature of its activities, the scale of necessary expenditure or property, plant and equipment. Lenders will have to be satisfied that the business is viable and that it will be able to pay interest and make capital repayments as they fall due. They are also likely to look for some form of security, by way of a legal charge over the assets owned by the business or over assets owned by the proprietors personally.

At the end of the day, you must be able to convince others that you have a good product or service, it will do what you think it will and has been thoroughly tested. It should compare well against the competition on quality, price and performance.

Step four: The business plan

Before approaching any third party for finance, you will need to estimate, as realistically as you can, how much capital you need and prepare a thoroughly considered "Business Plan".

This should take the form of a written explanation of:

- the business activities
- its future prospects
- its strengths and opportunities
- its weaknesses and threats and how they are to be managed.

A prospective investor or lender would expect this to be supported by detailed

financial projections of profits and cash flows, explaining the underlying calculations and why the forecasts are thought to be achievable. Ideally these should be prepared on a month by month basis at least for the first year and in an annual summary form for each of the next two years. A Balance Sheet Forecast should predict the state of the business' affairs at the end of each period for which profit forecasts are prepared.

Except for smaller capital requirements, you will need to take advice as to where to look for finance. Sources range from the straightforward bank borrowing to more complicated venture capital arrangements where lenders may be looking for an equity interest in the business on a tax efficient basis. There are also many organisations and individuals prepared to provide financial or other help to new businesses.



Step five: Choose the right business structure

The exact legal form your business will take is an important decision. It is one that should be made at an early stage and will be heavily influenced by the results of your planning work so far.

The legal structure of your business defines your own responsibilities to everyone who is associated with the business. You should seriously consider professional advice to help you with this decision. There are five basic ways of setting up in business:

- as a sole trader
- in a partnership with others
- in a limited liability partnership
- through a limited company
- as a franchise

Table 1 summarises the main advantages and disadvantages of each. To find out more, we have produced a detailed information sheet which you can obtain from Adrian or Gordon at Kingston Smith called 'Information Sheet 1: Business structure'.

Step six: Understand your new tax responsibilities

HM Revenue & Customs (HMRC) requires new business activities to be registered within three months of commencement. Failure to do so can involve penalties. A helpline takes registrations over the phone (08459 15 45 15). Those who register are issued with a Starting up in Business guide. There is also a free video. So, what are the comparative tax implications of using a limited company vehicle or not?

There are a number of things that you will need to consider with regards to taxation and depending on the legal status of your business profits fall under different tax regimes, table 2 summarises these.

Table 1	Advantages	Disadvantages
Sole Trader	<ul style="list-style-type: none"> • Few formalities • More flexibility • Complete responsibility • Taxed as an individual, but slightly differently than an employee • Start immediately 	<ul style="list-style-type: none"> • Personally liable for debts, although, total National Insurance cost is lower than for an employee, so are the benefits
Partnership	<ul style="list-style-type: none"> • Draw on talents of others • Relatively unrestrictive • Unlikely to require audit 	<ul style="list-style-type: none"> • Share the profits and set up costs • Jointly and severally liable for business debts • Not in sole control • National Insurance similar to sole trader
Limited Company	<ul style="list-style-type: none"> • Not normally personally liable for company's debts • Enhanced business image 	<ul style="list-style-type: none"> • More complex start-up procedure • More formal and restrictive • Cannot exceed powers granted by Articles of Association • Not normally allowed to borrow money from the company • Accounts may have to be audited if you exceed statutory audit threshold
Limited Liability Partnership	Similar to partnership, but <ul style="list-style-type: none"> • Personal liability is limited unless partner is personally responsible 	Similar to partnership, but <ul style="list-style-type: none"> • Additional statutory requirements • Accounts may have to be audited if you exceed statutory audit threshold
Franchising & Leasing	<ul style="list-style-type: none"> • Can trade on image and reputation of a household name • Need less start-up capital • Business risk may be reduced 	<ul style="list-style-type: none"> • Licensor has degree of control over way the business is run • Royalties have to be paid, which can be substantial

Your business may also register for other tax schemes including PAYE should you employ staff and VAT if the company makes taxable supplies that exceed registration thresholds.

Table 2 summarises the responsibilities, alternatively Information Sheet 2: 'Tax responsibilities' explains some of the areas in greater detail.



Table 2	Tax Responsibilities
Sole Trader	National Insurance and Income Tax A sole trader or partner is charged Income Tax on the whole of the profits (or his partnership share) of the business for each annual accounting period. There is a further charge for National Insurance based on those profits.
Partnership	As per Sole Trader, see above.
Limited Company	Corporation Tax Corporation Tax is charged on the profits including capital gains tax, of a limited company for each annual accounting period. Those profits are struck after deducting all salaries (including any paid to proprietors and Directors) but before deducting dividends.
Limited Liability Partnership	As per sole trader above.

Step seven: Legal and commercial considerations

There are many other issues, which you should familiarise yourself before embarking in business on your own. To find out more, obtain a copy of Information Sheet 3: 'Legal and commercial considerations' which you can obtain from the same locations as the other Information Sheets. The following highlight only a few of the more important matters, including formal constraints both with third parties and staff.

- Legal agreements
- Trading laws
- Insurance
- Employment law
- Stationery
- Protecting your intellectual property
- The Data Protection Act
- Disaster recovery

Step eight: Establish basic accounting records

It is crucial, from the outset, that you maintain an adequate record of all your business transactions:

- to keep track of income and expenditure
- to provide sufficient information with which to prepare your income tax and/or corporation tax returns accurately and on time. HMRC requires you to keep records for at least six years to support the entries you have made in the tax return
- in the case of a limited company – to comply with the statutory accounting requirements
- to monitor the success of your business
- to provide the information necessary for you to plan for the future
- Initially your records can be kept using a simple spreadsheet program. As your business develops, you will need to have more sophisticated systems such as an "off the shelf " computer accounting package.

Step nine: Take advice

Your talents and skills should be exploited by you and not by others. It pays to take professional advice where necessary. Look for someone with the relevant expertise and with whom you feel you can build a relationship of mutual trust and respect. They should offer you commitment and understand your business and your long term objectives.

Step ten: Enjoy it!

Deciding to run your own business is a major decision and one which should not be taken lightly. Although there are a significant number of serious issues to consider before you start, the experience of being your own boss can be immensely rewarding and satisfying.

About Kingston Smith's sports team

Kingston Smith is a top 20 firm of Chartered Accountants. Our sports sector team have an in-depth understanding of the sports sector. We have helped many sports clubs and professionals and this experience means you receive positive and practical advice, based on a thorough understanding of your sport. By offering a 'one stop' complete tax and accountancy solution for all sports clubs and professionals, we can give you confidence that your commercial interests are being successfully managed.



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