

Tech Startups

8 things you should consider

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So you know what you want to create and what the end result should look like. Have you thought about all of the issues around getting there?

1

HAVE A BUSINESS PLAN

Ensuring you have a business plan in place is crucial as it helps to:

- Map the future, enables you to identify key actions that are required to achieve success
- Support Growth and secure funding, if your business needs to raise funding now or in the future any investor will ask to see your business plan
- Manage cash flow, it provides you with a plan of when and how much cash you will need to see your project completed
- Have a plan in place to exit, it is much easier to find a buyer or strategy for your exit if everything is setup correctly in the first place.

2

SEEK PROFESSIONAL ADVICE

Whether it is for legal or accountancy work, having a professional advisor in place to guide you through every step should usually save you significant amounts of time and money with proper advice.

3

GETTING THE ADMIN IN PLACE

Not the most exciting part but crucial if you want your business to be a success and not spend the rest of your time chasing your tail.

The key admin events in the early part of a business are:

- Registering your business with the appropriate bodies
- Ensuring you have contracts/agreements in place with employees
- Setting up a business bank account
- Keeping your records and receipts

4

REWARDING & MOTIVATING

If you hold shares and work in the business there are a number of tax efficient ways to remunerate yourself instead or in addition to a salary such as using dividends and pensions.

Have you thought about rewarding or attracting key individuals with equity in the business. If so, how you do this could have far reaching consequences.

Want to give equity away? - without proper planning you could trigger income tax and capital gains tax charges on the business and individuals.

Linking equity to success - Offering equity based on performance to incentivise colleagues can also provide some significant tax advantages. See number 7 for share schemes

5

RAISING CAPITAL

One of the biggest challenges any new business faces is generating funds from investors. Did you know that the government offers tax efficient schemes to help businesses attract investment?

The Enterprise investment scheme (EIS) and Seed enterprise investment scheme (SEIS) can offer investors between 30% and 50% income tax relief on their investment and can offer exemption from tax on a future sale. These tax advantages make both schemes extremely popular amongst investors.

6

REWARDING INNOVATION

The government is keen to encourage innovation in the fields of science and technology. To this end they offer super tax deductions for qualifying research and development expenditure, subject to meeting certain criteria and making a correct claim. It is even possible to go back two years to make a claim.

For a small to medium sized business the tax deduction on qualifying expenditure can be up to 225% of the original cost, to the extent that this generates a loss for tax purposes cash refunds can be claimed from HM Revenue & Customs.

7

SHARE SCHEMES

Giving shares outright to employees can have a number of unwanted tax consequences for everyone concerned.

The government offers a number of tax advantageous share schemes, each to suit different business and personal circumstances. The two most popular are:

Enterprise management incentives (EMI)

These are the most popular, used by small to medium sized business. If setup correctly there is no income tax on grant or exercise of the share options and potentially only 10% capital gains tax due on a sale. It is also possible to attach conditions to the shares to incentivise employees. There are tax deductions for the company as well.

Company share option plans (CSOP)

Usually used when EMI is not available, this scheme does offer tax advantages but these are not as flexible or advantageous as the EMI scheme. Aimed at larger companies.

8

EXIT PLANNING

Providing you own at least 5% of the shares and are an officer/employee of the company for a year prior to sale and the company is a trading company a claim might be possible for what is known as Entrepreneurs relief. This relief means that only 10% tax is due on the sale instead of 28%.

At RPG Crouch Chapman we act for a number of technology businesses from website/app design to Bitcoin traders so we regularly advise on all of the above issues. Please contact us to discuss how we can help your business grow