



From startup to success:

a guide to small business
accounting, compliance
and growth

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Running a small business is one of the toughest jobs on the planet

Why?

To begin with, you have to design a fantastic product or service. It must stand out from the crowd and be something people need.

But then you're faced with many things you didn't sign up for. The first indication of this is when you decide what type of entity your business will be and fill out all the paperwork.

Next up, you must devise a business strategy and marketing plan.

And the extra tasks just seem to pile up from there.



Do something - it doesn't matter what. Even if it's wrong, you will learn from it.

Duane Jackson, Staffology and KashFlow Founder

Entering a new world of small business accounting and compliance

Unfortunately, things become even more mission-critical after these early stages.

Accounting is one sink-or-swim task you must face soon after you start.

And the minute you have staff, you suddenly have the responsibilities of an employer. That means you need to establish HR procedures and set up a payroll.

None of that's easy. And there can be serious repercussions if you get anything wrong.

How this guide helps you and your small business

This guide was created by the team at IRIS to help with all the tricky administrative tasks you'll have to face.

Those include:

- Structuring a new small business
- Marketing your business
- Accounting
- HR
- Payroll

If you're already up and running, we suggest you skip the next section, 'Structuring a new small business' (or use it as a checklist), and head straight to the section on marketing.

Structuring a new small business

Let's begin with some of the most important things you must do when starting your small business.

It's time for some big decisions, important paperwork and essential research.

What are the first steps for a startup?

1) Choose the structure of your business.

Are you a self-employed individual? Perhaps you're sharing the risk with one or more people in a partnership. Maybe you want to position the company as a separate legal entity (a Limited Company).

2) Once you have decided on this, you have to **register**. Sole traders sign up with HM Revenue and Customs (HMRC), as do partnerships, and each person must pay tax via Self Assessment. A partnership also nominates someone to send a partnership tax return. Limited companies must decide on a secretary, partners, shareholders, and guarantors and identify those with significant control. They register with Companies House and HMRC and pay Corporation Tax.

3) **Set up your bank account.** Limited companies MUST keep their business dealings separate from individual bank accounts. It's a good idea for self-employed people and partnerships to have a separate bank account for their businesses, too. That way, private and business transactions don't mix.

4) **Arrange any insurance you require.** This is not always a "nice to have". See the next section for more details.

5) You might have to **register with the Information Commissioner's Office (ICO)** to comply with General Data Protection Regulation (GDPR). The ICO oversees how businesses handle personal data. Check its [website](#) for more details.

Do your research

Research is necessary when starting a new business, as it protects you from legal pitfalls. Crucial areas include:

GDPR compliance - You must know all about data handling to protect the privacy of the clients or customers you serve.

Employment law - You need to know all about contracts, the National Living Wage (we'll come back to this) and much more. If not, you could soon find yourself in legal trouble.

Intellectual property - Learning about trademarks, copyrights, and patents isn't easy, but if you get anything wrong, you could end up in a costly legal dispute.

Licences and permits - You might know what permissions you need (such as gas safety, food and hygiene), but double-check with the UK Government website nonetheless.

Regulations - You are accountable for complying with any regulatory bodies that oversee your trade. Always re-read regulations and get yourself on email lists for updates and newsletters.

Professional insurance - Whether looking after your staff or visiting customers, you need to protect yourself from liability. You should at least consider professional liability and professional indemnity insurance. If you are an employer, you need employer's liability insurance; this may affect your bottom line, but the cost of doing nothing could be astronomical.

Marketing your business

Marketing might seem like a magical art, but anything you do to promote your business falls under this discipline. So, chatting with an old friend who might want your product or service is just as viable as drawing up a detailed multimedia plan.

That said, having a marketing plan does matter.

Without one, you lose out to competitors who are thinking in more depth and in the long term. Your reputation will not grow, and people will not be attracted to your team when it's time to recruit talent.

The core of an effective marketing strategy

To keep things simple and streamlined, consider the 4 Ps of marketing. First introduced by Neil Borden in the 1950s, they stand for product, price, place, and promotion.

Product talks about the features, benefits, and qualities you offer; price is what you charge; place is the location or channels where you distribute your offering; and promotion is how you communicate.

Price is something you may have already factored in (for example, are you pricing competitively, or does a higher price reflect value?), but the next section will help you delve further into factors that will affect product, place and promotion.

What about a business plan? It's outside the scope of this guide, as it relates to what you know and do best, but we'd recommend you focus on a couple of crucial things you want to achieve over the year. You can then put these objectives into a SWOT analysis. This is an exercise where you list the Strengths, Weaknesses, Opportunities and Threats. Doing so helps you spot any internal and external factors affecting success.

Things to think about in your marketing strategy

To create a plan that will win over new customers, think about the following:

Who is your target audience? Who are the people who need to know about your service or product? This can be potential buyers or people who influence decision-makers.

How do you stand out from your competitors? This is often called a Unique Selling Point or Proposition (USP). This can be a product feature, any extra value your service provides, or the experience your team has.

What are your objectives? This can range from a modest year-one profit to total market control. However, as a small business, do stay realistic.

What are the quick wins? While devising plans for world domination, we might forget about small audiences who will put money in our account from day one. But locking down this audience is a start - and a start builds momentum.

Can you do anything more with existing customers? It's easy to take hard-won clients and customers for granted. But if you can find ways to get repeat business from them, it will turbo-charge your income.

Your website - the virtual 'shop window' for small businesses

Once you have done all of this, you have the beginnings of a brand. There is much more to branding, but this is a strong start for your current purposes.

The next step is to build your website. If this is something you haven't started, here's how you can make real progress fast:

Buy a short, meaningful domain name.

A domain name is, effectively, your web address. Please don't make the name too long; people will struggle to remember it if you do. Finding a domain will take some time because many of the best were bought years ago.

Get a good hosting provider - perhaps one that will help with design. Many providers, like Squarespace and Wix, will simplify your website's design and creation process. They will also sell you the domain name and hosting. Hosting is, essentially, your plot of land on the internet.

Start writing about your products or services. Set things out on your website so they're easy to find, read and understand. As part of this process, we'd highly recommend reading the information aloud - and checking your spelling and grammar - before hitting 'publish'. That way, everything flows nicely, and errors are reduced.

Reaching out to customers

Now you have a website, Google and other search engines will hopefully start to send people your way.

But, because this is difficult to guarantee, you should use additional methods to reach customers. In doing so, you can bring them to your site or ask them to contact you directly.

So, how do you do this?

Social media

Keep this strategic and straightforward, or it will drain your time and money. Check the audiences for each social media platform. For instance, if your target demographic doesn't use Facebook, don't waste your time or your potential advertising spend.

Advertising

Speaking of advertising, how much of your budget should you set aside for this purpose? The amount small businesses spend on advertising varies wildly; because of this, you should start small and track the return on your investment.

Email

Sending emails is a classic way to reach new audiences and keep in touch with customers. But beware of the pitfalls; GDPR asks that you get permission before adding someone to an email list.

Technology-wise, look to email platforms like Mailchimp to stay efficient. These are great for maintaining your lists of prospects and automating your emails. But use this power responsibly: don't drive customers to distraction with too many emails. If you do, they will soon ask to be taken off your contact list.

Endorsements

Positive word of mouth and glowing reviews are some of the best publicity you can get for your business. You can ask happy customers if they would like to endorse you - whether that's on a site like Trustpilot or as a quote you can include on your website. If anyone posts a negative review online, consider contacting them to help via the same comment system. This will show readers a positive attitude on your part and a desire to fix any issues customers might face.

Finance

Success means money in, money invested and money spent on staff.

In this section, we'll cover the basics of bookkeeping and accounting.

Adopting modern, fully integrated small business accounts software saves you the worry and inconvenience of reinputting data. Software like IRIS KashFlow - our best accounting software for small businesses - shares information across apps instantly and securely.

Finding a good accountant or bookkeeper can be a massive help - and outsourcing is an option even at the highest level of your small business. A Virtual Finance Director (VFD) is a qualified finance expert. They fulfil the role of a Finance Director without being on your payroll. Working virtually or remotely, they can undertake as much or as little as you need.

Getting started with bookkeeping

Whether you want to do the bookkeeping yourself, employ someone, or outsource it, you must know the basics.

In bookkeeping, tracking all money coming in and out of the business is essential. Sales need to be matched against the invoices you issued. Meanwhile, money leaving the business should also match your paperwork - for instance, purchases must match supplier invoices.

Throughout this process, it's essential to:

- Track every transaction
- Store invoices safely
- Keep personal and business expenses separate
- Check transactions against bank statements to spot irregularities
- Keep on top of your credit control - ensuring that money is coming in on time for the work you do. Otherwise, you can find yourself in financial difficulties early on.

Bookkeepers often chase customers for late payments. This task is not to be underestimated. Late payments impact cash flow, resources, payments to suppliers and more.



Mistakes and spreadsheets

Spreadsheets are prone to error. Research says there could be as many as one per 100 entries, maybe more. With big corporate spreadsheets, it's believed mistakes are virtually inevitable.

So, should you use specialist software for small business accounting and bookkeeping?

We'd say yes - even if you didn't pick one of ours (like small business bookkeeping software KashFlow).

Regardless of where you look, we'd suggest software built for the cloud (rather than adapted to it). Generally, this will run better.

If you are employing people, we'd also suggest this software should link to your HR and payroll solutions. That makes things much easier, and it saves you from re-typing information. Re-typing information invites mistakes and wastes a lot of time. It also means less information being sent via email, which is less secure.

What is MTD, and how does it apply to your small business?

MTD stands for Making Tax Digital. It was designed to help businesses better track and pay what they owe.

It asks businesses to keep a regular digital record and pay tax more frequently. This will reduce errors caused by annual returns, which cost HMRC billions each year.

Currently, MTD may or may not apply to your business.

Do you have a VAT-registered business?

If you do, you have to comply with MTD, regardless of whether you're a sole trader, limited company, partnership, charitable trust, or landlord with at least one UK property.

Remember, if your taxable turnover becomes more than £85,000, you must register for VAT.

If it's not, you can still register voluntarily if you wish to claim input VAT. This is VAT on goods and services that you purchase for the business. However, you should be aware you'll likely have to charge output VAT, too - VAT on the goods or services you sell. This might represent higher costs for smaller customers who do not claim VAT.

What about MTD for Income Tax?

If you earn more than £50,000, then you'll have to register for MTD by April 2026.

And partnerships?

As of the time of writing, there's currently no set date for when Making Tax Digital will apply to any type of partnership.

Corporation Tax

The UK Government will allow companies to partake in a pilot that will test MTD for Corporation Tax. The changeover will happen for everyone after April 2026 but before 2030.

What do I need to do to comply with MTD?

- Get software in place, such as IRIS KashFlow - our best accounting software for small businesses. Visit the Government's webpage for recognised MTD-compatible software.
- Register for MTD on the Government's website.
- File your tax return using your new software.



Small business, policies and your people

This section of our guide looks at an important step in your small business growth journey - attracting staff and putting the right policies and procedures in place.

Recruiting staff

In this competitive time, businesses have to go above and beyond to recruit the right staff.

It's a difficult task. But there are some important basics which will give your campaigns a head start.

For instance, adverts should clearly define the role, explaining how the recruit will fit into your business structure. Ensure listings are upfront about where the job is based (home, office or hybrid). Also, consider setting out the hours of work and explaining if there's expected overtime or travel.

Place the adverts in the right place. On social media, seek out GenZ on TikTok and Gen X on Facebook and LinkedIn (although there will be demographic overlap).

Think about if you can offer any perks, but don't add something for the sake of it.

Finally, involve the right people in the candidate review process. In a small business, there's every chance that's you.

Check someone's right to work in the UK

You must ensure your employees have a right to work in the UK. If you don't, the penalties are severe. You face up to five years in jail and an unlimited fine if it's found you had "reasonable cause to believe" employees were working illegally.

You can also be in trouble if you don't carry out the right checks.

These depend on the worker. For British and Irish citizens, it entails checking original documentation, like a passport. People who are not British or Irish citizens can get a share code, which you can check online. Alternatively, they can present you with immigration documents.

Remember, you must not discriminate against people because of where they are from.

This is a detailed, legally sensitive process. For full information, visit the [UK Government website](#).



HR is important. Without a formal structure in place that serves as a solid foundation for organic growth, growing your team is going to become complicated, and it's going to take up a lot of your time. We provide HR consultancy for this very reason.

How to become an HR policy powerhouse

Every business needs rules. They keep everything running smoothly and provide written guidance for important workplace scenarios. Crucially, they also build in fair legal protections for you and your employees.

Some policies are a 'nice to have', others are absolutely necessary. On the latter, every worker should have an employment contract. And if there are more than five staff members, you have to have a health and safety policy.

Common policies include:

- **Attendance and timekeeping** - covering schedules, expectations, tracking methods, and rules around unexpected absences for your employees. This policy also covers what employees can expect regarding related disciplinary action.
- **Health and safety** - outlining a commitment and approach to staff welfare. This includes aims, objectives, responsibilities and details on how risks are managed.
- **Breaks** - staff get three types of break: worktime breaks if they are there for more than six hours (20 mins), daily rest (11 hours between 'working days') and weekly rest (an uninterrupted 24 hours without work every week. There should also be 48 hours without disturbance each fortnight).

- **Leave** - employment contracts must specify contractual entitlement to holiday and time off.
- **Discrimination** - these include protections against discrimination on the basis of race, sex, age, gender, social origin and disability.
- **Anti-harassment** - these set out procedures for reporting, investigating and dealing with harassment on the basis of race, sex, ethnicity, national origin, disability, religion, age, gender, sexual orientation and more.

HR software, like [Staffology By IRIS](#), helps you stay organised and keep on top of staff development. The best software will give you a bird's eye view of the business fast. Alternatively, if you want to ensure your HR is compliant with the help of a team of experts, you can speak to the likes of [IRIS HR Consulting](#).



Payroll

When you employ staff, you need to process a payroll on a regular basis. Payrolls are usually processed weekly or monthly, but there can be other patterns.

You need to submit to HMRC every time you pay your employees. This is known as Real Time Information (RTI).

There's no sugarcoating the fact you'll need to get payroll right first time - or face an unhappy workforce.

If you're going to do it yourself rather than outsource, begin by ensuring you have registered as an employer with HMRC. They will give you a PAYE (Pay As You Earn) reference number. HMRC uses this to deduct Income Tax and National Insurance from employee pay.

Then, you must ensure you have good payroll software that handles all statutory pay (like maternity or sick pay), tax, NI, and pensions. The same software also has to create and keep accurate reports for HMRC.

If you are going to do payroll in-house, consider cloud-based software that caters for small businesses and lets you work from anywhere. One example is [Staffology Payroll By IRIS](#).

The pay run

When you're an employee, it can seem like your wage slip appears by magic, and the money drops into your bank account.

But a lot has to happen to get to this point. Let's see what a pay run involves.



You record employee pay, factoring in holiday, sick pay and more



You calculate deductions. Your software should help with this by (for example) taking off tax and National Insurance



You produce a payslip that details the gross wage (before deductions), deductions, and the net wage (after deductions)



You report everything to HMRC using a 'Full Payment Submission (FPS)', which must happen before or on payday.

Does payroll sound like too much of a nightmare? That's because it can be. That's why IRIS has a payroll outsourcing service, [IRIS Fully Managed Payroll](#), that works for anyone - from enterprise operations to small businesses.

Important points to consider

You must account for the National Living Wage and National Minimum Wage.

The National Living Wage is the minimum you must pay employees 23 and over. The National Minimum Wage is the lowest rate for employees under 23 (or apprentices if they are older).

You must know about statutory sick pay

This is the least you can pay someone while they're ill. You can always offer more, but never less (as what's often called 'contractual sick pay'). [Check the UK Government website for more details](#). People get statutory sick pay if they have a contract of employment, can demonstrate they worked at the business and meet the minimum pre-tax earnings per week (currently £123).

There are exceptions. These include if you have already had 28 days of sick pay, recently received Employment Support Allowance, are on Statutory Maternity Pay, are pregnant (the finer points on this are [here](#)), are in the armed forces or in custody.

You must know about payslips

You are breaking the law if you don't provide one of these for your employees. There are [some exceptions](#), such as contractors or freelancers, but most others are unlikely to apply (such as for merchant seamen and women).

The wage slip can be either electronic or paper. However, most people these days expect electronic payslips.

To be a proper payslip, it must include:

- Gross pay
- Net pay
- Variable deductions like Income Tax and National Insurance
- Fixed deductions like season ticket repayments
- The amount and method of any part payments
- The number of hours worked

You must understand tax codes

A working knowledge of tax codes is essential. The good news is that HMRC is responsible for issuing these. New employees might not have a code available. They will get an emergency tax code until this is resolved. This covers all basic income above the minimum personal allowance.

You must be aware of IR35

This set of rules deals with contractors.

The full guidance is [here](#), but if you are a small startup business, IR35 probably doesn't apply. Not unless your business is earning millions.

You must set up and manage a workplace pension scheme

Running a workplace pension scheme is a huge topic in itself. Ultimately, you need to pay at least 3% of your employees' 'qualifying earnings' into a pension scheme. Staff are 'auto-enrolled' into this process, with the right to opt out.

You also need to submit regularly (usually every three years) a Declaration of Compliance to the Pension Regulator. This confirms the current status of your business and your employees in relation to pension regulations.

[The Pensions Regulator](#) has a useful tool you can use to get the whole process started.

Good payroll software will automatically calculate tax and National Insurance, generate payslips and offer regular updates to ensure you're compliant.



Payroll Year End

In short, nobody is a fan of payroll year end – it's a major undertaking.

You must report on the previous tax year, providing a final submission to HMRC. This contains information such as your Full Payment Submissions and Employer Payment Submissions. You have to ensure employees get their P60s and put preparations in place for the next tax year.

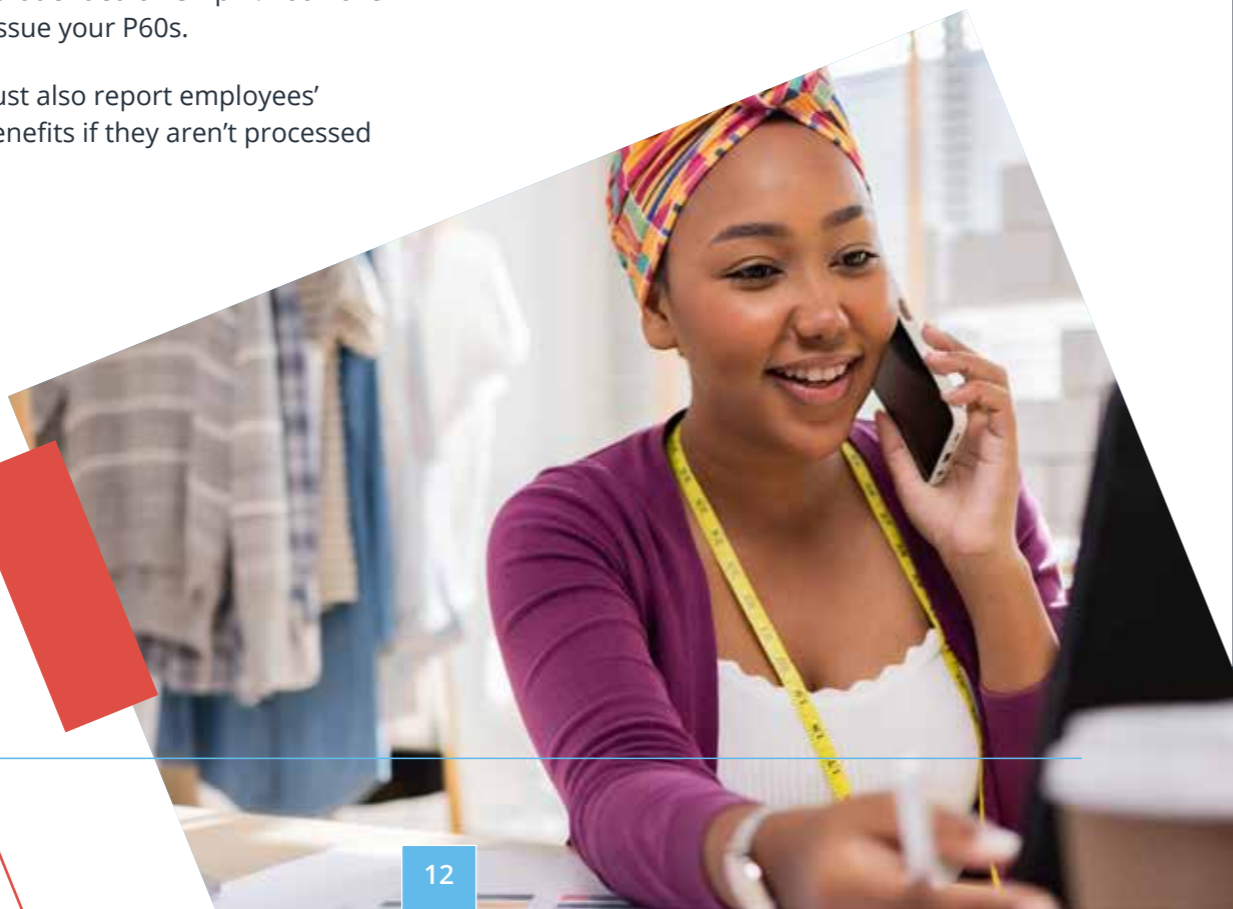
The final submission must be done by 19 April for the tax year that ended on 5 April. You have until 31 May to issue your P60s.

By 6 July, you must also report employees' expenses and benefits if they aren't processed via payroll.

Keeping records

You must collect and keep records of what you pay your employees and the deductions you make. Your records must show you've reported accurately, and you need to keep them for three years from the end of the tax year they relate to. HMRC may check your records to make sure you're paying the right amount of tax.

If you do not keep full records, HMRC may estimate what you have to pay and charge a penalty of up to £3,000.



...and the rest is up to you

All of which brings us to the end of the guide. You've seen how to get started, what's involved in bookkeeping and accounting, what payroll involves and what policies you will want to put in place.

Hopefully, we've demystified these administrative tasks and given you some idea of how to deal with them while focusing on what you do best.

But remember, IRIS is always here to help.

- For an overview of our [accounting packages for small businesses and more](#), [click here](#).
- To see how we help in HR, [click here](#).
- To learn about IRIS and its payroll software and outsourcing, [click here](#).

About IRIS

IRIS is well known for creating accounting software packages for small businesses, medium-sized companies and enterprise-level organisations – as well as for specialists in HR, payroll and education. We're also a go-to for mission-critical outsourcing solutions.

We started 45 years ago and are now relied on by more than 100,000 customers across 135 countries.

Find out more about how IRIS can help you

