

Reasons behind incorporation

HMRC Research Report 317

June 2014

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1. Summary

There has been a marked increase in the number of small businesses incorporating over the last two governments. Possible reasons for this could include changes to the structure of the labour market and a number of recent policy changes regarding corporation tax, many of which were to encourage growth.

1.1. Research Aims

To gain a greater understanding of the motivations behind incorporation, HM Revenue & Customs (HMRC) commissioned Ipsos MORI to conduct research among nano and micro businesses that incorporated in 2010/11. The research particularly focused on better understanding what types of businesses chose to incorporate; the factors that influenced their decision; their perceptions in advance of incorporation and their experiences of the process since being incorporated.

Ipsos MORI carried out a telephone survey of 1,004 such businesses from 20 November 2013 to 26 January 2014. Qualitative depth interviews were conducted between 13 January and 4 February 2014 with 30 respondents who indicated in the survey that tax and National Insurance (NI) savings influenced their decision to incorporate or has been a benefit of incorporation. Below, we summarise the findings from the research.

1.2. Profile of incorporated businesses

A wide range of businesses decided to incorporate:

- Overall, before they incorporated the business respondents were more likely to be an employee (46 per cent) than self-employed (33 per cent). One in five of all respondents were self-employed in the same business prior to incorporation;
- Three in ten respondents (29 per cent) said that they had owned other limited companies prior to them incorporating their current business;
- Most newly incorporated companies had just one director (58 per cent) at the time of incorporation;

- Newly incorporated companies covered a range of industry sectors, most commonly administration and support service activities (20 per cent);
- Around two-thirds of companies interviewed (65 per cent) made a profit in 2012/13, while 19 per cent made a loss and nine per cent broke even; and
- The majority of companies in the survey (63 per cent) used an external agent or advisor for most or all of their tax administration.

1.3. Knowledge about incorporation

Most respondents (63 per cent) knew little or nothing about incorporation before getting involved.

The initial idea for incorporating usually came from respondents themselves (59 per cent) or alternatively from an accountant (19 per cent). The qualitative work nevertheless demonstrated that this matter may be slightly more nuanced, for example in that some considered incorporation their own idea even though someone else had recommended it to them.

Most respondents (63 per cent) said they received paid help or advice in seeking to incorporate, with a further 21 per cent receiving unpaid help or advice.

1.4. Reasons for incorporating

Businesses were incorporated for a variety of reasons. The most common reason was the protection offered by limited liability, with it being the most commonly cited reason whether businesses were not prompted (24 per cent cited it then) or were prompted with suggested reasons (the proportion citing limited liability protection then rose to 78 per cent).

The next most commonly cited unprompted reason for incorporating was tax and National Insurance savings (19 per cent cited it then), though it was the fourth most widely cited reason after prompting (61 per cent mentioned it then). Most respondents thought that it generally was very or fairly common (63 per cent) for UK businesses to incorporate in order to reduce tax liabilities.

Other common reasons included the ability to comply with certain contract criteria (15 per cent without prompting rising to 60 per cent after prompting), enhanced credibility (13 per cent rising to 74 per cent after prompting) and the provision of a formal structure (12 per cent rising to 70 per cent).

Half of respondents (48 per cent) had no concerns about incorporation before they incorporated. The main concerns that were raised were around increased administration or paperwork (15 per cent cited this), and additional costs such as accountant fees (eight per cent).

1.5. Experience of incorporating

The benefits realised after incorporating were similar to the reasons given for incorporating, indicating that the benefits experienced by businesses were generally in line with their expectations. Having incorporated, the main benefit of incorporation was seen as the improved reputation or credibility that it gave the company (mentioned by 22 per cent without prompting, rising to 58 per cent after being prompted with suggested benefits), followed by tax and NI savings (20 per cent unprompted, 47 per cent after prompting).

After prompting a third agreed that being incorporated makes it easier to obtain finance to expand the business (32 per cent), though 24 per cent disagreed; while 28 per cent agreed that being incorporated helped them during the economic downturn. Just five per cent cited this as a benefit without prompting.

Certain types of businesses were more likely to be motivated by tax and NI savings, and to say that this was one of the main benefits of incorporating:

- Respondents who had the same business prior to incorporation;
- Those who, after incorporating, used a remuneration strategy including combined salary and dividends.

Qualitative interviews with those for whom tax or National Insurance savings was either a motivator or benefit of incorporating, showed that the initial incorporation

idea was often motivated by different business reasons and the potential tax/NI benefits were not apparent until after incorporation. This was especially common among those with less business experience generally.

1.6. Overall advocacy

Four in five respondents (80 per cent) said that they would recommend incorporation, if they knew someone in a similar position to their own before they incorporated. This includes a group of strong advocates of incorporation - 21 per cent who would recommend it without being asked. Around one in eight (12 per cent) said that they would not recommend it, and this proportion not recommending incorporation rose to 24 per cent among companies that had ceased trading by the time of the survey.

The following types of respondent were most likely to say they would recommend incorporation:

- Those still trading under the same ownership (82 per cent of whom would recommend incorporation compared with 69 per cent of those who had passed on ownership or ceased trading);
- Those making a profit during the 2012/13 financial period (87 per cent compared with 75 per cent of those who broke even or made a loss);
- Those using dividends as a remuneration strategy (84 per cent compared with 73 per cent of those not using dividends);
- Those with a high level of personal remuneration (94 per cent of those earning £50,000 or more per year); and
- Those for whom tax and NI savings were important in their own decision to incorporate (85 per cent).

The qualitative interviews confirmed that many respondents felt they had made the right decision to incorporate.

1.7. Administration

Most respondents (65 per cent) said that the overall cost of administrative tasks related to incorporation were about the same as they expected, although 23 per cent thought that they were higher than expected; and four per cent said they were lower.

Around half of respondents (53 per cent) did not think that the administration involved was too much of a burden. A third of respondents overall (34 per cent) agreed that the administration involved in incorporation was too much of a burden.

1.8. Disincorporation

Although there may have been some confusion around disincorporation amongst respondents, seven per cent of businesses reported they had disincorporated by the time of the survey. In addition, five per cent of respondents who still owned their business had plans to disincorporate.

There was generally low awareness of disincorporation tax relief (just 13 per cent of respondents had heard of this).

2. Introduction

This report presents the findings from a quantitative survey of nano and micro businesses that incorporated in 2010/11 and qualitative interviews with 30 businesses who indicated that their decision to incorporate was influenced by potential tax and National Insurance (NI) savings. The survey and the qualitative interviews were carried out by Ipsos MORI on behalf of HMRC.

2.1. Background

'Incorporating' refers to the process whereby businesses register as a legally-recognised company with Companies House. Despite the difficult economic conditions, the number of businesses incorporating with Companies House has risen progressively since 2008 (the largest number of new incorporations was in 2012/13 - 483,000).

Possible reasons for this increase in incorporations could include changes to the structure of the labour market and a number of recent policy changes regarding corporation tax, many of which were to encourage growth. Successive governments have made a number of changes to corporation tax since 2000/01, designed to stimulate growth and the current Government has prioritised corporation tax rate reductions as a key way to increase UK competitiveness. As a result the main corporation tax rate was reduced from 28% to 26% at April 2011, to 24% from April 2012, to 23% from April 2013, to 21% from April 2014 and will be further reduced to 20% from April 2015. As corporation tax rates have fallen a gap has been created between personal tax rates and tax paid via a company structure which may be encouraging incorporation.¹

¹ Companies which make a profit of £300,000 or less are charged corporation tax at 20%. Those with profits between £300,000 and £1.5 million may claim marginal relief on corporation tax so that the rate they pay rises gradually from the small profits rate to the main rate. These rates compare with higher personal income tax rates of up to 45%.

Research among small businesses² indicates that there are a range of benefits to incorporating such as limited liability protection (which limits the financial exposure of the business owner's personal assets should the company go into liquidation) and securing the company name so that others cannot use it. However, major milestones such as incorporation are also associated with perceptions of increased administrative burden. Given the many factors that individuals may take into account when establishing a company it is important for HMRC to have a greater understanding of these motivations, whether they be related to tax, administrative burdens, ease of doing business or other factors. This will help HMRC more accurately predict the number of incorporations and target policies to aid company growth.

Encouraging growth and reducing costs for businesses is an HMRC priority and the Department is committed to achieving this as outlined in its 2012-15 Business Plan. For business customers this means finding tax easier to understand, so they are more confident in knowing what to do, when and how to do it, thus enabling them to deal with the Department more accurately and with greater certainty. Thus, in addition to more accurately predicting the number of incorporations and shaping policy development, HMRC also wanted to better understand newly incorporated businesses, in particular to be able to respond to concerns that newly incorporated micro businesses are subject to administrative burdens designed for more complex organisations. They also wanted to understand how disincorporation was helping businesses that found incorporation an inappropriate legal form.

2.2. Research objectives

The main objectives of this study were to:

- Better understand what types of nano and micro businesses chose to incorporate in 2010/11;
- Identify what factors influenced their decisions to incorporate, including sources of information and advice used, and to what extent (if any) tax planning played a role;

² See, for example, Companies House: Incorporation Research Results 2012-13, June 2013, as well as the 2007/08 Annual Small Business Survey (SBS).

- Explore perceptions and expectations in advance of incorporation, and what has happened since incorporation as well as their views on the process of incorporating; and
- Examine recently incorporated companies' awareness of 'disincorporating', and disincorporation relief, and whether they had any plans to disincorporate.

2.3. Methodology

The research took a multi-method approach which included a CATI (Computer Assisted Telephone Interviewing) survey and in-depth qualitative interviews. The research programme included a development stage for both quantitative and qualitative strands, including a pilot for the survey.

Quantitative survey

The main stage survey consisted of 1,004 telephone interviews with individuals who incorporated their business during 2010/11, and had fewer than ten employees and six directors at the time of incorporation. Fieldwork took place from 20 November 2013 to 26 January 2014. The questionnaire is provided in Appendix A.

Prior to the main stage, a pilot was conducted to test the sample quality, the questionnaire, and respondents' willingness to participate in the research. Twenty-one telephone interviews were conducted with individuals who incorporated a business during 2010/11.

The main stage survey adopted a random sampling approach whereby Ipsos MORI selected businesses from a sampling frame that was constructed specifically for the survey using HMRC's records of small businesses that incorporated in 2010/11. A total of 8,600 records were supplied to Ipsos MORI, drawn on a random basis with some over-sampling of London-based companies to compensate for data matching difficulties and lower response rates. Following telephone tracing, a total of 4,370 records were usable for fieldwork. Following 300 opt-outs, 4,070 leads were used in the main stage fieldwork which gave an adjusted response rate of 37% (see Appendix B).

The survey was intended to be representative of the population of nano and micro businesses that incorporated during 2010/11. Therefore, data were weighted, so as to correct for differential response rates across region; whether or not the respondent has an agent; the number of company directors during 2011/12; and whether or not the company had ceased trading. After weighting was applied to the 1,004 responses, the effective base size was 874. The full weighting profile can be found in Appendix C.

Qualitative interviews

The in-depth qualitative interviews were conducted with 30 respondents who indicated in the survey that tax and National Insurance savings influenced their decision to incorporate in 2010/11 or was a benefit of incorporating. The objective of the qualitative interviews was to enrich the survey findings by further exploring how incorporation had affected their business.

Quotas were set on sector, number of employees, number of Directors, the respondents' pre-incorporation employment status, use of an agent and future plans for the business. This approach ensured that a range of contextual aspects could be explored which might have influenced the decision to incorporate.

Fifteen interviews were conducted face-to-face and 15 were conducted by telephone. The interviews lasted between 30 and 45 minutes and fieldwork took place between 13 January and 4 February 2014. The topic guide is provided in Appendix D.

2.4. Interpretation of the data

It should be remembered that final data from the **quantitative survey** are based on a sample of nano and micro businesses that incorporated during 2010/11, rather than the entire population. Therefore, results are subject to sampling tolerances, and not all differences are statistically significant. Throughout this report, we report only on differences that are statistically significant at the 95% level of confidence.

Appendix E provides a guide to the statistical reliability of the data.

Where percentages do not sum to 100%, or to aggregated scores (e.g. “strongly agree” plus “tend to agree”), this may be due to computer rounding, or to questions allowing multiple answers. An asterisk (*) denotes any value less than half a per cent but greater than zero.

Where relevant, we refer to the findings from the **qualitative research** carried out with businesses as part of the follow-up stage. These findings are intended to add further insight into the survey results, rather than be statistically representative. In addition, it is important to bear in mind that we are dealing with businesses’ perceptions, rather than facts.

3. Profile of incorporated companies

CHAPTER SUMMARY

- (i) Four in five companies that were incorporated in 2010/11 were still trading with the same ownership at the time of the survey (82 per cent).
- (ii) Around half of the companies that were still trading had no employees other than the respondent (47 per cent).
- (iii) The turnover of newly incorporated companies varied: while 21 per cent of respondents said that the company turnover (in 2012/13) was under £25,000, 30 per cent had a turnover of £100,000 or more.
- (iv) Around one in four companies had directors who were related to the person who incorporated the business (23 per cent).
- (v) Respondents were more likely to be employed (46 per cent) rather than self-employed (33 per cent) prior to incorporation. In total, one in five (21 per cent) were self-employed in the same business prior to incorporation.

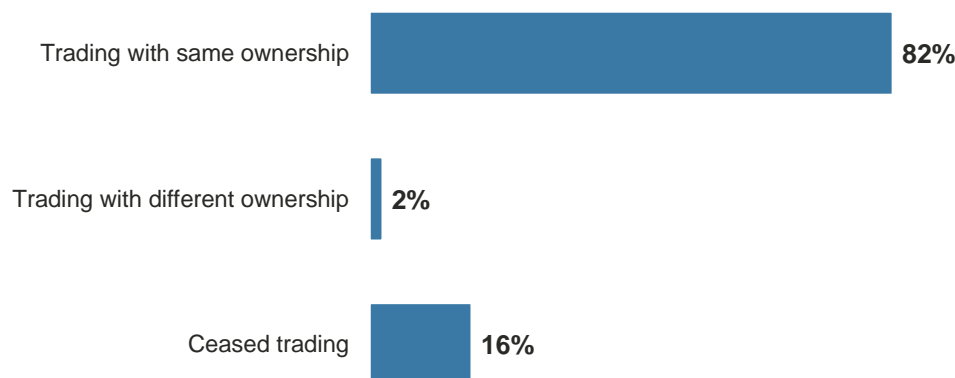
This chapter examines the profile and characteristics of incorporated companies covered in the survey. It also looks at the status and activities of respondents prior to incorporation.

3.1. Current status of companies

The survey covers businesses that incorporated in 2010/11. At the time of the survey, 82 per cent said that the company was still owned by the respondent and was still trading, while two per cent said that it had been sold or passed on. In one in six cases (16 per cent), the company had ceased trading, closed or had been liquidated.

Figure 3.1 Status of incorporated business

Q First of all, can I just check whether the company is still owned by you and is still trading?



Base: All respondents (1,004); Fieldwork dates: 20th November 2013 – 26th January 2014

Companies were more likely still to be trading if the respondent had previously been self-employed (87 per cent) rather than if the respondent had previously been an employee (81 per cent) or not working (76 per cent)³. In particular, companies were more likely still to be trading where the respondent had the same business prior to incorporation (90 per cent).

Companies that had ceased trading were asked how long it was after incorporation that they closed or liquidated the company. Around a third (35 per cent) were trading for up to one year, while 43 per cent were trading for more than a year and up to two years, and 21 per cent were trading for more than two years.

3.2. Company profile

Companies in the sample (i.e. recently incorporated businesses with fewer than ten employees and fewer than six directors at the time of incorporation) were in a range of industry sectors, most commonly administration and support service activities (20 per cent), professional, scientific and technical activities (eight per cent), wholesale

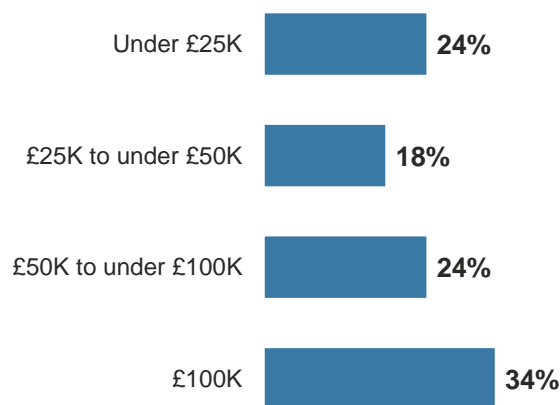
³ Note that these options are not mutually exclusive; it was possible for respondents to have more than one employment status prior to incorporation. For example the respondent could have been employed but also have been running their own business in their spare time.

and retail (seven per cent), construction (six per cent) and information and communications (four per cent).

Figure 3.2 shows the turnover of companies in the survey. Figures are for 2012/13, based on companies still trading. While 24 per cent of respondents said that the company turnover was under £25,000, 34 per cent had a turnover of £100,000 or more.

Figure 3.2 Turnover in 2012/13 financial year

Q And now thinking about the turnover for your company for the last financial year (2012/13), which of the following bands would this fall into?



Base: All who still own business (774); Don't Know and Refused excluded
Fieldwork dates: 20th November 2013 – 26th January 2014

Around half of the companies still trading had no employees other than the respondent (47 per cent), while 43 per cent had between one and four employees. A small proportion (ten per cent) had five or more employees.

Respondents were asked about the forms of finance used by the company. One in five respondents (20 per cent) said that they used external sources, such as debts, loans, mortgages or overdrafts, while the remainder used internal funds only. External sources were more likely to be used by larger companies and/or those with a higher turnover.

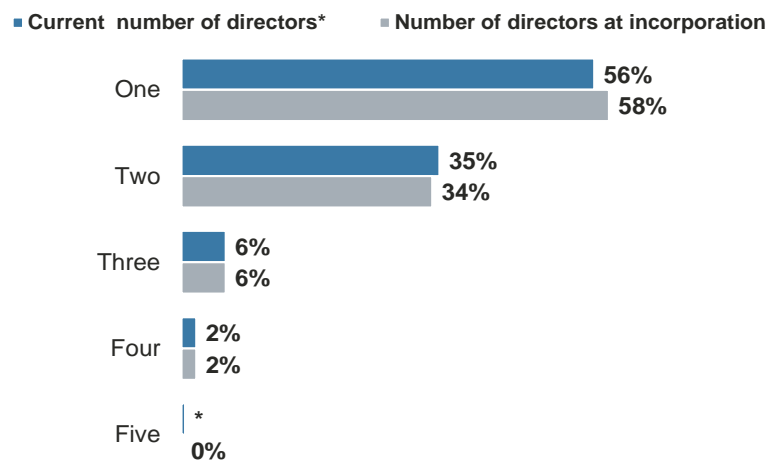
3.3. Involvement of directors and shareholders in company

At the time of incorporation, the majority of businesses had just one director (58 per cent), while one in three (34 per cent) had two directors, and eight per cent had three or more. The position at the time of the survey was very similar: 56 per cent had just one director, 35 per cent had two, and eight per cent had three or more⁴.

Figure 3.3 Number of directors now and at the time of incorporation

Q If company still operating: How many directors does this company currently have, including yourself? If sold/passed on/ceased trading: How many directors did this company have, including yourself, when you sold it or passed it on/when it ceased trading?

Q At the time of incorporating how many directors did this company have, including yourself?



*Also asked as number of directors when sold on/ceased trading depending on company status
Base: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

The survey asked for the number of directors who were shareholders, excluding the respondent. In businesses that were still operating and that had at least two directors (in total), 86 per cent said that at least one current director (excluding the respondent) was also a shareholder. Because the respondent has been excluded from the figures, we do not know the *total* number of shareholder directors in each company.

In addition, most companies also had non-director shareholders. Four in five (79 per cent) of all companies in the survey said that they had shareholders other than

⁴ If the company was no longer owned by the respondent or had ceased trading, respondents were asked about the position when it was sold/passed on/ceased trading, rather than the current position.

director shareholders, with 26 per cent having two or more non-director shareholders⁵.

3.4. Involvement of family members

Family members were involved in many incorporated businesses. The majority (62 per cent) of companies that had directors other than the respondent said at least that one of these directors was part of their family. This proportion was particularly high among companies who said they incorporated because of tax or NI savings (87 per cent).

In total, almost a quarter (23 per cent) of companies in the sample had directors who were related to the person who incorporated the business, and almost all of these were also shareholders – in total, 21 per cent of companies had director shareholders who were part of the respondent's family. The qualitative interviews suggest that there were also cases where respondents had been advised by their accountant to make a family member a director (this was usually a spouse or partner), but this had not always happened; for example, the partner was sometimes unwilling to take on this role.

“He [respondent’s partner] didn’t want to be a director because he made such a mess of it before... although the accountant kept saying he should be a director.”

Wholesale and retail sector, trading with different ownership

The above quantitative findings relate to the position at the time of the survey (or when the company was sold, passed on or ceased trading). Figures are very similar when looking at the position at the time of incorporation.

⁵ These figures may over-estimate the total number of non-director shareholders. In cases where the respondent was the only director shareholder, the question asked about the number of shareholders at the company (without specifying that these should be non-director shareholders); it is therefore possible that the respondent would have included themselves in the total for this question.

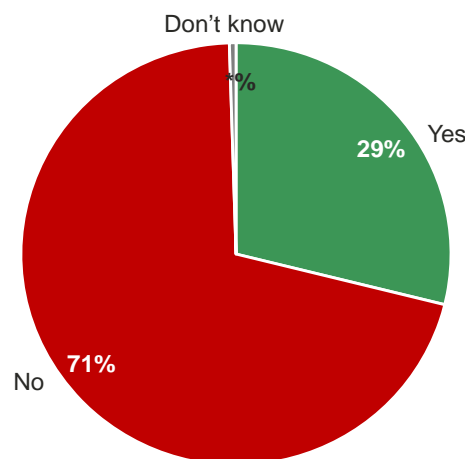
3.5. Previous experience of company ownership

Three in ten respondents (29 per cent) said that they had owned other limited companies prior to the company in question. This was more common where the current company:

- Had five or more employees (41 per cent);
- Had a high turnover in 2012/13 (37 per cent had a turnover of £100,000 or more); and
- Made a loss in 2012/13 (37 per cent). Section 6.1 confirms that companies were more likely to make a loss in 2012/13 if the respondent had previously been the director of another company.

Figure 3.4 Ownership of other limited companies

Q Prior to this business being incorporated, did you own any other limited companies? By own I mean having a controlling interest in the company.



Base: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

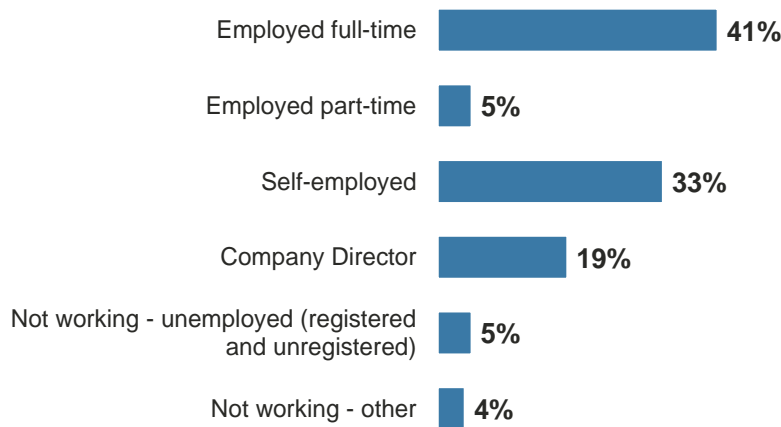
3.6. Working status prior to incorporation

Almost half (46 per cent) of respondents were working as an employee immediately before they became incorporated. A third were self-employed (33 per cent), while 19 per cent had a position as a company director. One in ten (ten per cent) were not working⁶.

⁶ Respondents can be in more than one category for working status prior to incorporation (e.g. it is possible to be self-employed and employed simultaneously).

Figure 3.5 Working status prior to incorporation

Q Thinking back to what you were doing immediately prior to your company being incorporated, were you one or more of the following...?



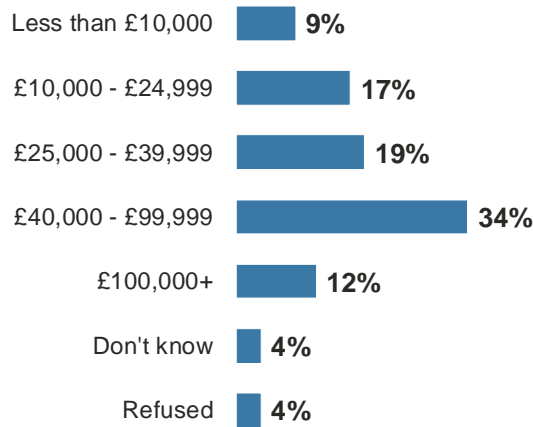
Base: All respondents (1,004); Question is multicoded. Fieldwork dates: 20th November 2013 – 26th January 2014

Figure 3.6 shows the personal earnings of respondents in the 12 months prior to their business being incorporated. Just under half earned less than £40,000 (46 per cent), including nine per cent who earned less than £10,000. One in eight (12 per cent) earned £100,000 or more.

Earnings were higher for those who were employed prior to incorporation, compared with those who were self-employed. Specifically, those who were previously employed were more likely to have earnings of between £40,000 and £99,999 (39 per cent compared with 27 per cent of those self-employed) and were less likely to earn less than £10,000 (six per cent compared with 13 per cent of those self-employed).

Figure 3.6 Personal earnings in 12 months prior to incorporation (employees and self-employed)

Q In the 12 months prior to this business being incorporated, how much did you personally earn approximately?

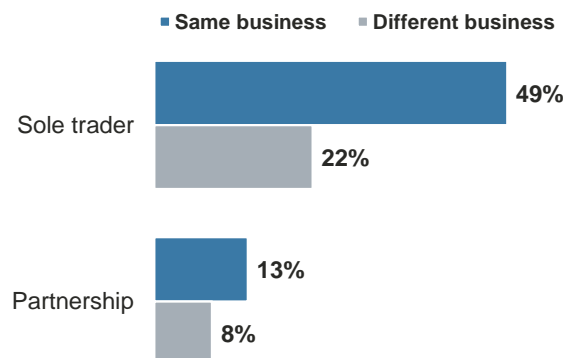


Base: All who were self-employed or employed (765); Fieldwork dates: 20th November 2013 – 26th January 2014

In cases where the respondent was **employed** immediately before incorporation, 15 per cent said that the employer became a client of the newly incorporated company. Most of those who were **self-employed** immediately before incorporation were working in the same business (63 per cent); i.e. they carried on in the same business and incorporated it. Figure 3.7 gives a breakdown of previous status.

Figure 3.7 Self-employment prior to incorporation

Q And were you a sole trader or in a partnership immediately prior to the business being incorporated?



Base: All who were self-employed (337); Fieldwork dates: 20th November 2013 – 26th January 2014

In total, 21 per cent of respondents in the survey were previously self-employed and in the same business prior to incorporation. The characteristics of these businesses are as follows:

- Many had already been operating for a long time prior to incorporation (47 per cent had been operating for 5 years or more);
- Half (49 per cent) said that other people also worked for the business prior to incorporation. This was lower than the proportion for incorporated companies at the time of the survey, indicating that some companies took staff on after incorporation;
- The turnover of the business prior to incorporation ranged from under £25,000 (21 per cent) to £100,000 or more (30 per cent);
- In the financial year prior to incorporation, respondents mostly said that the turnover of the business had either grown (41 per cent) or stayed the same (41 per cent); only nine per cent said it declined; and
- Around three in four (77 per cent) said that the business made a profit in the financial year prior to incorporation, while seven per cent said that it broke even and seven per cent said it made a loss. Section 6.2 provides further details on changes to business growth before and after incorporation.

These findings indicate that many existing businesses that became incorporated were well established businesses that were making a profit and had recently experienced a period of growth. The qualitative interviews also included examples where existing businesses became incorporated at a successful time; for example, one respondent said that after a strong financial year, their accountant recommended incorporation.

These findings can be considered alongside the experiences of respondents since incorporation (see Chapter 6).

4. Knowledge about incorporation

This chapter looks at the level of advance knowledge that respondents had about incorporation. It also examines the nature of advice or help that they received prior to incorporation.

CHAPTER SUMMARY

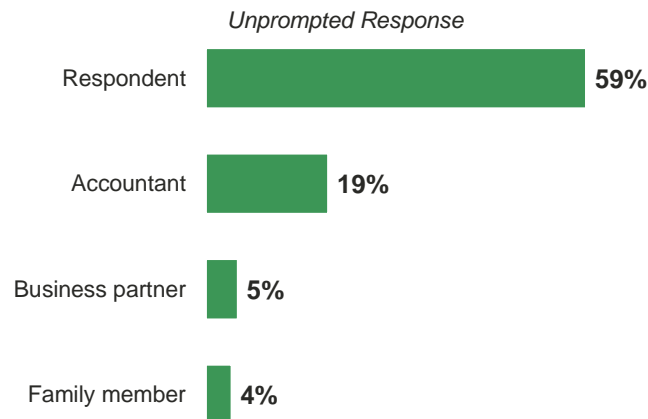
- (i) The quantitative research showed that the initial idea for incorporating usually came from respondents themselves (59 per cent) or alternatively from an accountant (19 per cent). The qualitative work nevertheless demonstrated that this matter may be slightly more nuanced, for example in that some considered incorporation their own idea even though someone else had recommended it to them.
- (ii) The majority of respondents received help or advice in seeking to incorporate, including 63 per cent who got paid help or advice.
- (iii) Most respondents knew little or nothing about incorporation before getting involved; 37 per cent said that they knew a great deal or a fair amount about it.

4.1. Initial idea for incorporating

In the majority (59 per cent) of cases, respondents said that they themselves had the idea to incorporate the business. One in five (19 per cent) said the idea came from an accountant, while a range of other sources were mentioned by small proportions of respondents (as shown in Figure 4.1).

Figure 4.1 Who had initial idea to incorporate

Q Who initially had the idea for you to incorporate your business?



N.B. All other mentions c.11% (another business owner, colleague, client/potential client, industry body, solicitor, friend)

Base: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

The **qualitative** interviews highlighted instances of potential uncertainty in what respondents meant when they said they had the ‘initial idea to incorporate’. For example, some respondents equated ‘incorporation’ with the decision to start their own business; whilst others felt that the initial idea to incorporate was theirs, even though they said that someone else had recommended it to them. In spite of these instances of variation the **quantitative** research showed that respondents were more likely to say they had the idea to incorporate the business themselves if they were an employee or a director immediately before incorporation (67 per cent in each case). Respondents who were self-employed with the same business prior to incorporation were most likely to say they have had the idea from an accountant (42 per cent).

As might be expected, those with greater knowledge of incorporation were more likely to have had the idea themselves, whereas those with less knowledge were more likely to have got the idea from an accountant.

Those who mentioned tax or NI savings as a motivation for incorporation were more likely than other respondents to have got the idea to incorporate from an accountant (39 per cent of those with a tax/NI motivation got the initial incorporation idea from an accountant).

The **qualitative** findings also indicated that the idea for incorporation generally came from respondents themselves or from an accountant. The qualitative interviews suggest two broad scenarios: the first is where respondents had little or no knowledge of incorporation, and an accountant suggested it to them; these respondents were often happy to take the accountant's advice without getting further information. Respondents with greater knowledge of incorporation were more likely to have the idea themselves. Some of these respondents had previous experience of incorporated companies, while others drew on information from their previous work or education (e.g. at business school). In these cases, it was common for the respondent to have the initial idea, but then for an accountant to re-enforce the idea and to provide additional advice.

"We already had a fairly good understanding of it; the accountant was used more as a sense check."

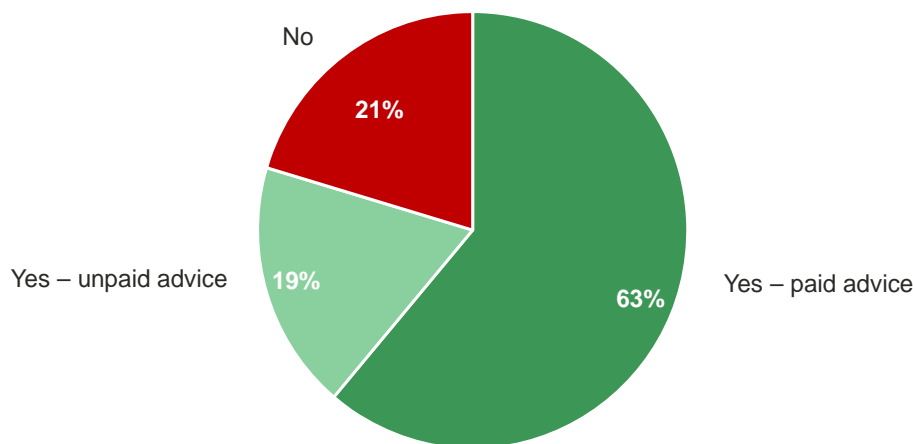
Admin and support sector, trading with same ownership

4.2. Help or advice

Most respondents (63 per cent) said that they received paid help or advice in seeking to incorporate, while a further 19 per cent received unpaid help or advice. One in five (21 per cent) said they did not get any advice at this stage.

Figure 4.2 Advice about incorporation

Q Did you use any help or advice in seeking to incorporate?



Base: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

Businesses were more likely to have sought paid advice if they had a company director who was related to the person who incorporated the business (70 per cent of these companies sought paid advice). They were also more likely to have sought paid advice if they were in a partnership prior to incorporation (77 per cent). One potential explanation for this is that the tax implications of incorporating a partnership are more complicated than for a sole trader. Therefore, partnerships may be more likely to initially engage an accountant as part of a longer-term strategy (for example, to provide ongoing assistance with partnership tax returns).

Respondents who were directors prior to incorporation were more likely than others to have had no advice at all (30 per cent). This is linked to a greater knowledge among these respondents; in general, those with greater knowledge about incorporation were also more likely to have had no advice at all (32 per cent of those who know at least a fair amount about incorporation had no advice at all).

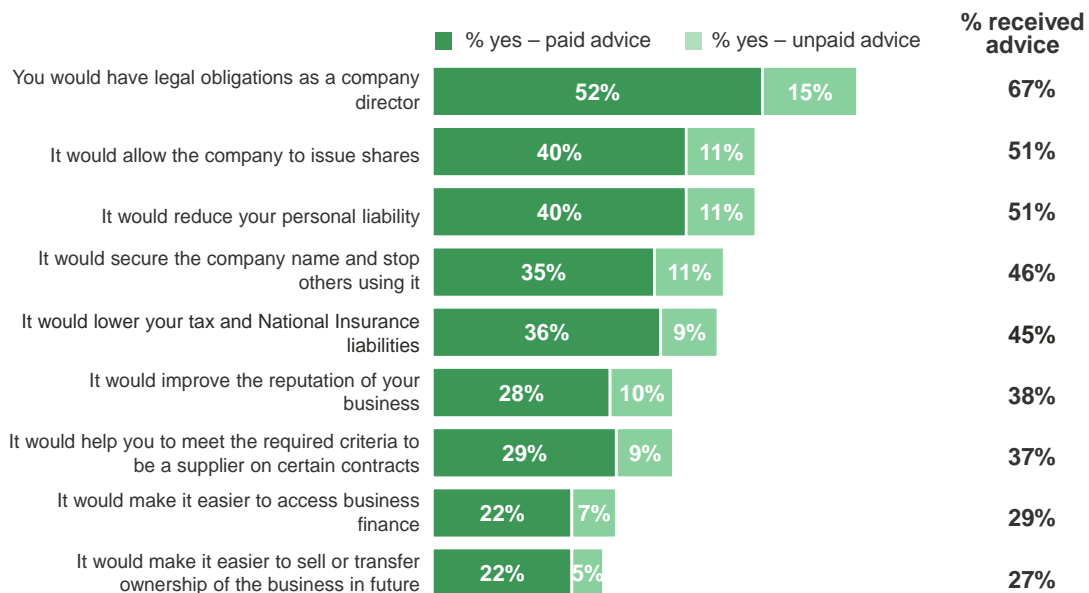
In the **qualitative** research, several respondents said they used multiple sources of information or advice. For example, one respondent used an accountant, but also got information from family members, from the local Business Enterprise Group and from searching online.

4.3. Types of advice given prior to incorporation

Prior to incorporation, respondents were most likely to have been given advice about their legal obligations as company director: two in three (67 per cent) were given this advice, including 52 per cent who said it was paid advice. Respondents said they were given advice about a range of other issues, including the issuing of company shares (51 per cent), reducing personal liability (51 per cent) and securing the company name (46 per cent). Just under half (45 per cent) said that they were told incorporation would lower their tax and NI liabilities. Full details are shown in Figure 4.3.

Figure 4.3 Advice given prior to incorporating

Q Thinking about the advice you received prior to incorporating, which of the following pieces of advice, if any, were you told?



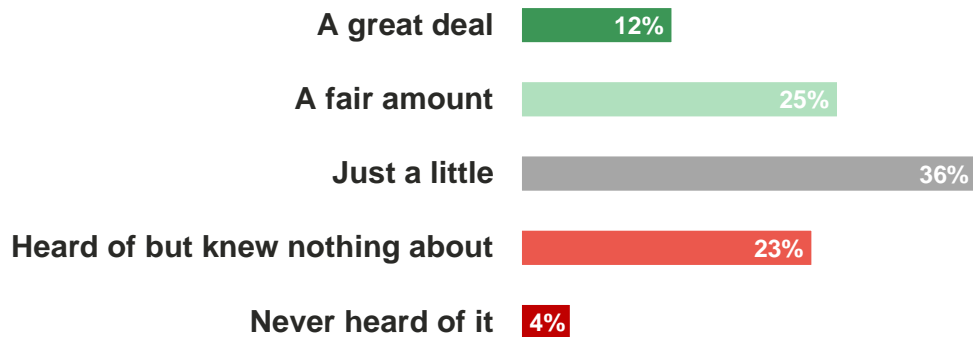
Base: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

4.4. Knowledge about incorporation

Respondents typically had limited advance knowledge about incorporation, with 37 per cent saying that they knew a great deal or a fair amount about it, 36 per cent knowing just a little and 27 per cent knowing nothing about it.

Figure 4.4 Knowledge prior to incorporation

Q Prior to incorporating, how much, if anything, did you know about incorporation?



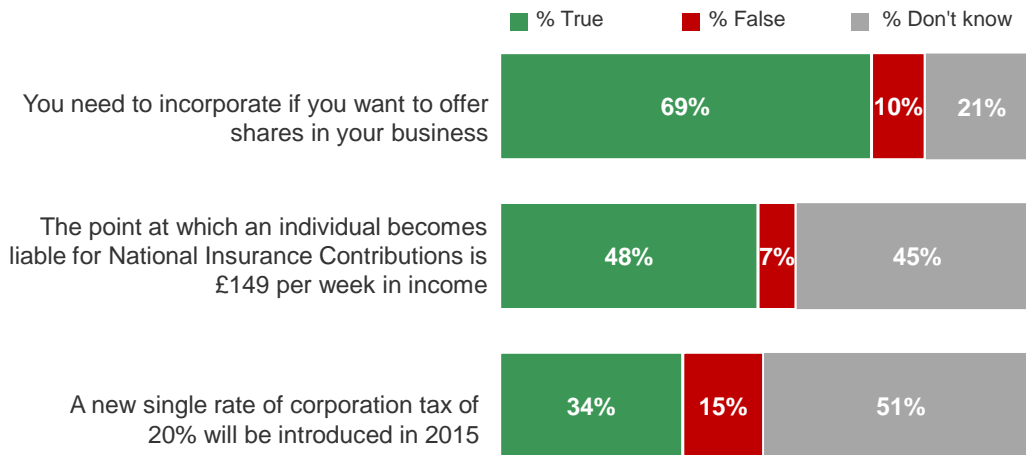
Base: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

Respondents were more likely to say they knew a great deal or a fair amount about incorporation if they had been a director prior to incorporating (70 per cent), while knowledge was much lower if respondents had been self-employed in the same business (24 per cent).

In order to assess respondents' knowledge more objectively, the questionnaire included a series of statements about incorporation and corporation tax; respondents were asked to say whether they thought each one was true or false. Figure 4.5 shows the findings for statements where the correct answer was that the statement was true. In general, respondents were more likely to be correct than incorrect, although a large proportion did not know (between 21 per cent and 51 per cent for the three statements).

Figure 4.5 Knowledge of specific aspects of incorporation and corporation tax

Q I am now going to read you a series of statements and I would like you to say whether, as far as you know, each is true or false? Please say if you do not know.



Base: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

N.B.: Refused not shown

Respondents who claimed a greater knowledge were more likely to get the answers correct. For example, 78 per cent of those claiming at least a fair knowledge of incorporation correctly stated that “you need to incorporate if you want to offer shares in your business”, compared with 64 per cent of those who claimed to know no more than a little about incorporation. Related to this, those who had been directors prior to incorporation were more likely than other respondents to give correct answers (directors also had a high level of stated knowledge, as seen above).

5. Reasons for incorporating

This chapter looks at the reasons for deciding to incorporate, as well as the concerns that respondents had when making the decision.

CHAPTER SUMMARY

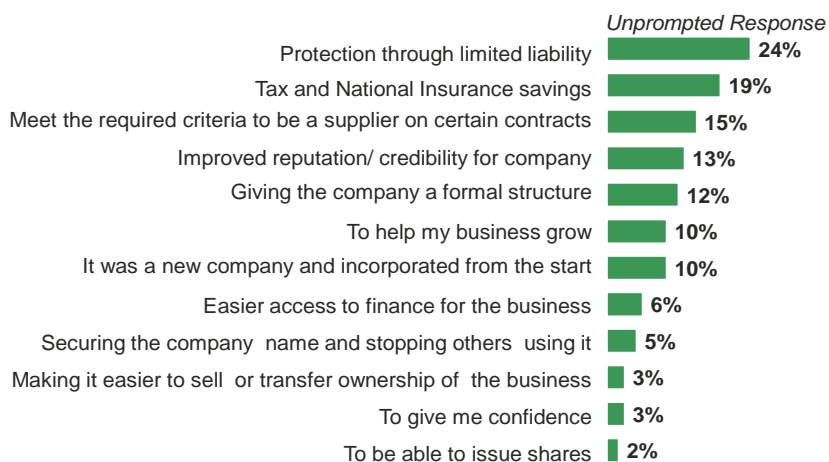
- (i) The main reason for incorporating was the protection provided by limited liability. Tax and NI savings ranked second in the list of motivations. The other main reasons were related to enhanced credibility, getting a formal structure or it being the required criteria for contracts.
- (ii) Half of respondents had no concerns about incorporation. Among the remainder, the main concerns were around increased administration or paperwork, and additional costs (e.g. accountant fees).

5.1. Main reasons for deciding to incorporate

When asked, without prompting, why they decided to incorporate, respondents were most likely to mention the protection that it gave through limited liability (24 per cent), followed by tax and NI savings (19 per cent), the ability to meet the criteria for suppliers in certain contracts (15 per cent), improved reputation or credibility (13 per cent) and providing a formal structure for the company (12 per cent). Full details are shown in Figure 5.1.

Figure 5.1 Main reasons for incorporating

Q Thinking back what were the main reasons for deciding to incorporate?



Base: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

Respondents were more likely to say they decided to incorporate because of protection through limited liability if they:

- Prior to incorporation were self-employed (26% of whom protection through limited liability was among the main reasons for incorporating), a sole trader (28%), a Director (27%) or not working (32%) while those employed were less likely to cite this reason (19%);
- Had lower personal remuneration (26% of those with remuneration of under £25K had liability as a reason vs. 17% of those who earned £25K to under £50K);
- Had a lower turnover (27% of those with a turnover under £50K in 2012/13 compared with 17% of those with a turnover of £50K to under £100K); and
- Knew at least a fair amount about incorporating beforehand (30%, vs. 20% who know just a little or less).

Respondents were more likely to say they decided to incorporate because of tax and NI savings if they:

- Had the same business prior to incorporation (38 per cent of those who had the same business prior to incorporating said that tax/NI savings were among their main reasons for incorporating);

- Had a company director(s) related to the person who incorporated the business (28 per cent);
- Had between one and four employees (26 per cent, compared with 14 per cent of those with no employees and 16 per cent of those with five or more); and
- Used a remuneration strategy of salary plus dividends (25 per cent).

Those who incorporated for tax or NI reasons were also particularly likely to be self-employed prior to incorporation, and less likely to be employed or a director:

- Over half (56 per cent) of those who incorporated for tax/NI reasons were self-employed beforehand (compared with 33 per cent overall being self-employed);
- Around one quarter (26 per cent) of those who incorporated for tax/NI were employed full time before (compared with 41 per cent overall) and 12 per cent were a director (vs. 19 per cent overall); and
- Of those who were self-employed beforehand and who incorporated for tax/NI reasons, 77 per cent of these companies were in the same business prior to incorporating.

Among those who were self-employed in the same business prior to incorporating, the distribution of sectors they operated in was similar to the distribution of all recently incorporated businesses: e.g. in both cases the most common sector was administrative and support service activities, which made up 20 per cent of those who were self-employed in the same business prior to incorporating as well as 20 per cent of all recently incorporated businesses.

One significant difference in the sector profile between those who were self-employed in the same business prior to incorporating and the sector profile of all businesses in this survey is in the human health and social work activities sector: 13 per cent of those previously self-employed in the same business operated in this sector, compared with four per cent of all recently incorporated businesses.

There is also a relationship between incorporating for tax/NI reasons and profit and turnover:

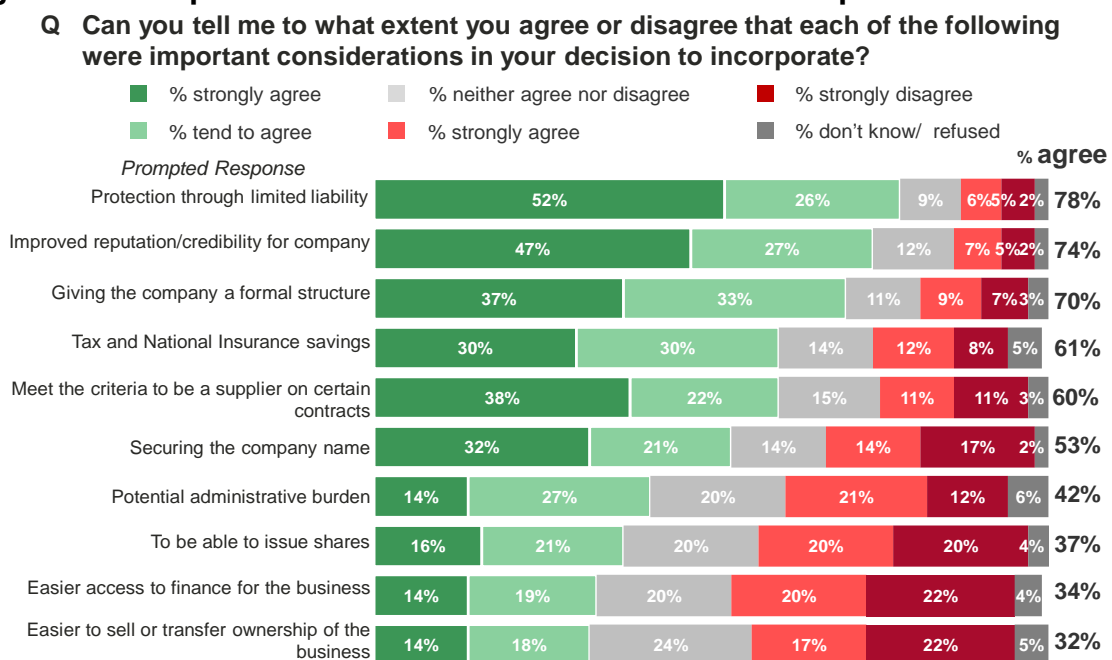
- Those with the smallest turnovers in 2012/13, of under £25K, were less likely to incorporate for tax/NI reasons (only 12 per cent of these companies did so compared with 19 per cent overall); and
- Those who made a profit in that time were more likely to incorporate for tax/NI reasons (24 per cent of those making a profit incorporated for these reasons, compared with 10 per cent of those who broke even and 11 per cent who made a loss).

5.2. Important considerations in decision to incorporate

When prompted, once again gaining protection through limited liability came out as the most widely mentioned consideration for incorporating (78 per cent agreed), followed by improved reputation or credibility of the company (74 per cent) and giving a formal structure to the company (70 per cent).

Slightly fewer – three in five respondents (61 per cent) – agreed that tax and NI savings were an important consideration in their decision to incorporate, including 30 per cent who strongly agreed that this was the case. Full details are shown in Figure 5.2.

Figure 5.2 Important considerations in decision to incorporate



Base: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

The sub-group variations mirrored those described above for unprompted reasons.

5.3. Reasons for incorporating: qualitative interviews

The reasons for incorporating given in the qualitative interviews reflected the quantitative responses, even though, as mentioned, the qualitative research was conducted solely among those who indicated in the quantitative research that tax and/or National Insurance was a motivating factor or a subsequent benefit of incorporating. In the qualitative research, respondents' motivations for incorporating fell into three broad categories: protection through limited liability protection; greater credibility and a more formal structure; and benefits from tax or NI savings. When many respondents chose to incorporate it was motivated by business reasons such as limited liability protection and/or improving their reputation with customers/suppliers through having a 'formal' incorporated structure. For some the potential tax/NI benefits were not apparent to them until after incorporation. This was especially common among those incorporating for the first time, or those with less business experience generally.

“My brother-in-law...unfortunately had an accident at a house back in April 2011 where he set fire to the roof. He tried to claim on his public liability insurance – they wouldn't pay out because he hadn't complied with the conditions on his policy schedule for the use of heat. And had he been Limited his liability should have been limited to just the business, but as it was his house was put at risk...And I decided that being as I'm a plumber I use a blowtorch at people's houses...I've got to be Limited.”

Construction sector, trading with same ownership

“It was a surprise and a pleasant one when I found out that I had not any longer got to pay the income tax on account to them based on the previous year so that was really pleasant.”

Construction sector, trading with same ownership

“The only one (benefit of incorporating) I can really think of that we hadn’t anticipated was being able, as a company, to support our local community through sponsorship (via tax benefits)... that wasn’t a benefit that we discussed when we incorporated but we’ve been able to support a local kids’ football team and things like that.”

Admin/support sector, trading with same ownership

Respondents who incorporated in order to **gain greater protection** referred to specific risks that they wanted to be protected from. For example, one respondent mentioned the volatility of their business sector, and said that their accountant advised that getting incorporated “meant that they couldn't go after her for money after the business went under”. Another respondent mentioned the risk of being sued.

“The public are into suing each other these days it seems to me!”

Agriculture sector, trading with same ownership

Another respondent wanted protection because of the large sums of money their business dealt with. Other respondents mentioned their personal circumstances (e.g. the need for protection of their home, savings or family).

Some qualitative interview respondents said that **savings in tax or NI payments** were only part of the motivation for incorporating, while for some respondents it was the main consideration as illustrated in Case study 1 overleaf. One respondent looked at the issue from a purely financial perspective, and calculated that once her income had reached a certain point, it would be more beneficial to be a limited company.

“By setting up the company I was able to reduce the effective tax rate considerably, and in addition I was able to charge all my expenses and deduct those expenses from what I did end up paying in Corporation Tax.”

Agriculture sector, trading with same ownership

Case study 1: Incorporating for tax savings

- This respondent had previously run an incorporated business, in the same sector (management consultancy) as his recently-incorporated business.
- He had retired but was offered a six-month project by a head hunter.
- He decided to incorporate this second business and tax savings was the main reason for this.
- In advance his accountant set out models of his likely income by taking on the work and showed him that his tax bill would be reduced 'considerably' if he was an incorporated business rather than operating as a sole trader.
- Incorporation was his decision but it was one based on the advice of his accountant. He also had some knowledge of the issues from previous employment.
- He viewed incorporation as a common thing to do in his line of work, and some prospective employers would insist on having a company to charge their services through.
- The company was only set up for this contract, though he did undertake other small pieces of work during the year that the company was trading.
- He paid himself a basic salary plus dividends, constructed for the most tax efficiency, again based on accountant's advice.
- Accountants did the company accounts but the fees charged by them were 'relatively trivial'.
- He looks back on the decision to incorporate positively. He knows he is saving tax but so long as what he does is legal he is happy with this.

Those with previous experience of incorporated businesses tended to be more motivated by and minded of tax and NI benefits when incorporating. For most others however tax and NI considerations were secondary, and often outlined to them by their accountant.

A number of respondents in the qualitative interviews felt that incorporation helped to add **credibility and formality** to their company. Some said that incorporation was a requirement for some contracts, while others said that it made the company look more credible in the eyes of customers or potential contractors (as a 'business', rather than as just a 'named person').

“There are many sole traders who operate on ebay (simply selling items on) and suppliers are not keen on working with them.”

Wholesale and retail sector, trading with same ownership

“If a company wasn’t limited, I’d either feel that it was incredibly small-scale or that there were some questions to ask about it.”

Agriculture sector, trading with same ownership

“It’s all a big game, credibility, your customers think “oh - they must be good they’re a limited company”, rather than Joe Bloggs. If you have on your letterhead ‘Limited’ then it does give a certain comfort ... to the customers as well.”

Wholesale and retail sector, trading with different ownership

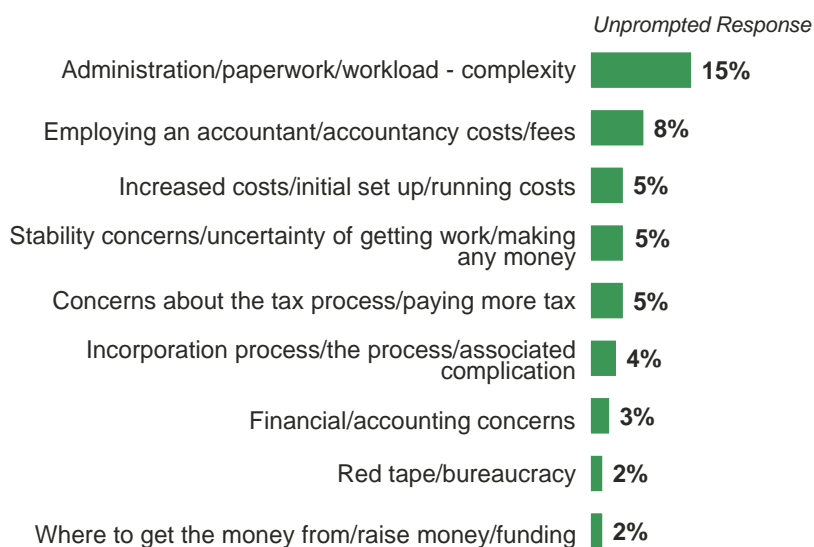
One respondent said that they thought incorporation helped them personally, by encouraging them to work hard and “take the business more seriously”. Another respondent saw it as a ‘natural prerequisite’ to trading, an important indicator that business has ‘solid foundations’.

5.4. Anticipated drawbacks prior to incorporating

Respondents were asked to think back to the time before they incorporated, and to consider what drawbacks they thought there might be in incorporating. Around half of respondents (48 per cent) did not think there would be any drawbacks to incorporating. For the remainder, there were two main areas of concern. The first was around increased work due to additional paperwork and administration (mentioned by 15 per cent), while the other main area of concern related to costs: the cost of employing an accountant (eight per cent), increased set-up or running costs (five per cent) or concerns about the tax process/paying more tax (five per cent).

Figure 5.3 Anticipated drawbacks to incorporation

Q Before you incorporated, what drawbacks, if any, did you think there might be to incorporating?



Base: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

Respondents who had the same business prior to incorporation were more likely to say that additional paperwork and administration (20 per cent) and the cost of employing an accountant (14 per cent) were concerns. Concerns about additional administration and paperwork were also greater among respondents who had no employees (18 per cent).

In the **qualitative interviews**, few respondents had serious concerns about incorporating. In fact, some respondents felt that incorporation removed worries or concerns, as it was seen as administratively easier and financially advantageous. One respondent pointed out that recent changes (e.g. online submission) had made it easier for people to set up a company and therefore had reduced the administrative burden involved.

Where respondents did have concerns, they were mainly around the possibility of additional paperwork or administration.

"The only worry in any of these things is keeping up with HMRC and their requirements, and making sure that the returns are done on time, the Companies House annual return, all these sorts of things."

Wholesale and retail sector, trading with different ownership

Some respondents described this type of concern as only a minor worry, although there were respondents who were quite anxious about increased administrative burden, particularly where they had little or no knowledge about incorporation. For other respondents, their concerns were not really around the actual steps of incorporation itself but more general concern around setting up a company for the first time – such as whether it would be a success, the extra administration and other work involved with running an incorporated business.

"I don't know nothing about it (being incorporated). It's you know, fear of the unknown isn't it? Just the fact that I didn't know what I was getting involved in, that was all."

Accommodation/Food Service, trading with different ownership

6. Experiences since incorporation

This chapter looks at the experiences of companies since incorporation. This starts with an examination of remuneration strategies and financial performance since incorporation. It then looks at the perceived benefits of incorporation, including tax savings as well as other benefits, and also any perceived drawbacks.

CHAPTER SUMMARY

- (i) Around two-thirds of newly incorporated companies (65 per cent) made a profit in 2012/13, while 19 per cent made a loss and nine per cent broke even.
- (ii) Around half of respondents (49 per cent) said they expected their company to grow in the next 12 months. A third (32 per cent) expected turnover to stay the same, while nine per cent expected a decline. A further seven per cent expected to close the business or sell it on.
- (iii) The most common remuneration strategy used by companies in the survey was a combination of salary and dividends (37 per cent), while 18 per cent used salary only and 20 per cent dividends only.
- (iv) Three years on, tax and NI savings were seen as one of the main benefits of having incorporated, along with the protection provided through limited liability, and enhanced credibility or formality in the business structure.
- (v) Most respondents (65 per cent) said that the overall cost of administrative tasks related to incorporation were about the same as they expected. A third of respondents (34 per cent) agreed that the administration was too much of a burden on their business, although 53 per cent disagreed.

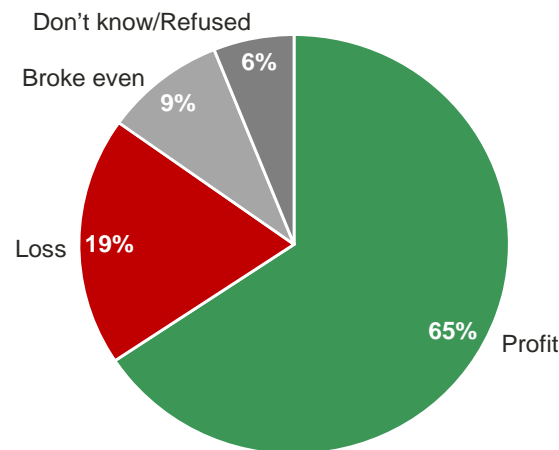
6.1. Business growth

Growth in 2012/13

Around two-thirds of companies interviewed (65 per cent) made a profit in 2012/13, while 19 per cent made a loss and nine per cent broke even.

Figure 6.1 Financial performance in 2012/13

Q Can I just check, did you make a profit or loss during the 2012/13 financial period?



Base: All who still own business (865). Fieldwork dates: 20th November 2013 – 26th January 2014

Those who were in a partnership prior to incorporation (77 per cent) and those who had the same business prior to incorporation (76 per cent) were more likely than other respondents to make a profit. The proportion who made a profit was also higher among former employees whose previous employer became a client (77 per cent). Those who were previously a director were most likely to make a loss (27 per cent).

Companies in wholesale, retail, accommodation or food service sectors were most likely to make a loss (32 per cent).

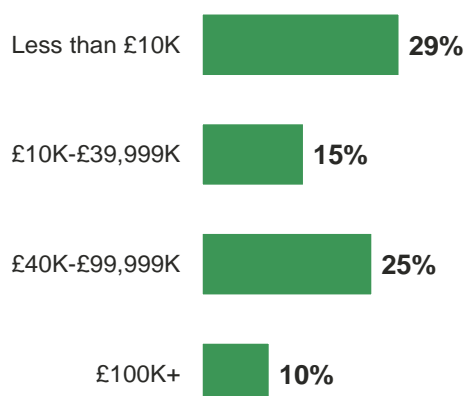
Respondents who incorporated in order to make tax and NI savings were more likely than other respondents to make a profit (81 per cent). This could indicate that tax and NI savings were more likely to be a motivation for incorporation among businesses that were (or were expected to be) profitable.

As might be expected, making a profit was linked to turnover and personal remuneration.

Those who made a profit in 2012/13 were asked how much profit they made. As can be seen in Figure 6.2, 29 per cent made a profit of less than £10,000, whereas 10 per cent made a profit of £100,000 or more.

Figure 6.2 Amount of profit made in 2012/13

Q And how much profit did you make during the 2012/13 financial period?



Base: All who made a profit in the 2012/13 financial year (447); Don't Know and Refused excluded
Fieldwork dates: 20th November 2013 – 26th January 2014

As might be expected, larger profits were more common for larger companies (those with five or more employees) and those with higher turnover. Larger profits were also more common in companies using a remuneration strategy of combined salary and dividends: only 17 per cent of companies using this strategy made a profit of less than £10,000 (compared with 29 per cent overall).

Change from previous year

Of the companies who **made a profit** in 2012/13, around half (47 per cent) said that this profit had increased from the previous year, while 34 per cent said it had remained unchanged, and 16 per cent said that it had decreased. Among those who **made a loss** in 2012/13, 44 per cent said that this loss was greater than in the previous year, while 25 per cent said it was unchanged and 27 per cent said the loss was smaller than the previous years.

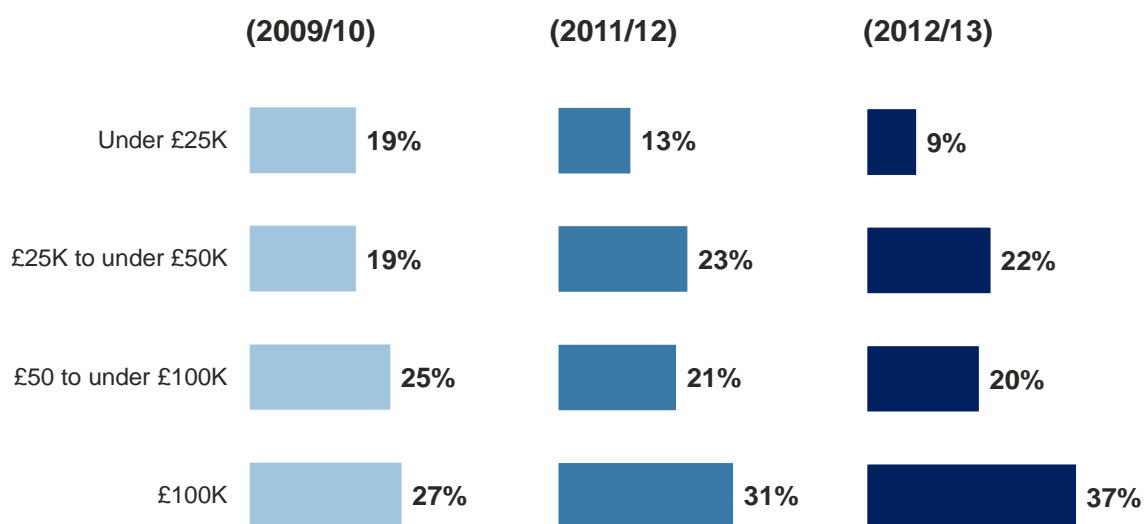
Where companies' profits had increased from the previous year, there were two **main reasons** given: increasing sales of existing products or services (73 per cent) or working for different clients (66 per cent). In addition, some companies had increased their profits by introducing more products or services (33 per cent), investing in new capital or equipment (21 per cent) or investing in innovation (18 per cent). There were also companies who had moved into new markets, either in the UK (17 per cent) or internationally (11 per cent).

Change before and after incorporation

Where respondents had the same business before they incorporated, it is possible to compare the company's turnover in the year before, the year after incorporation, and the last financial year (2012/13). This analysis shows that at the overall level there was a shift over time with fewer businesses having a turnover under £25,000, and more achieving a turnover of £100,000 or more. For example, in the year before incorporation, 27 per cent had a turnover of £100,000 or more; this figure increased slightly (31 per cent) in the year after incorporation, and to 37 per cent in 2012/13.

Figure 6.3 Turnover in 2009/10, 2011/12, and 2012/13

Q What was the turnover for your company for the financial year?



Base: Sole trader / in a partnership and it was the same business prior to incorporation and they had been operating for 2+ years before incorporation (167)

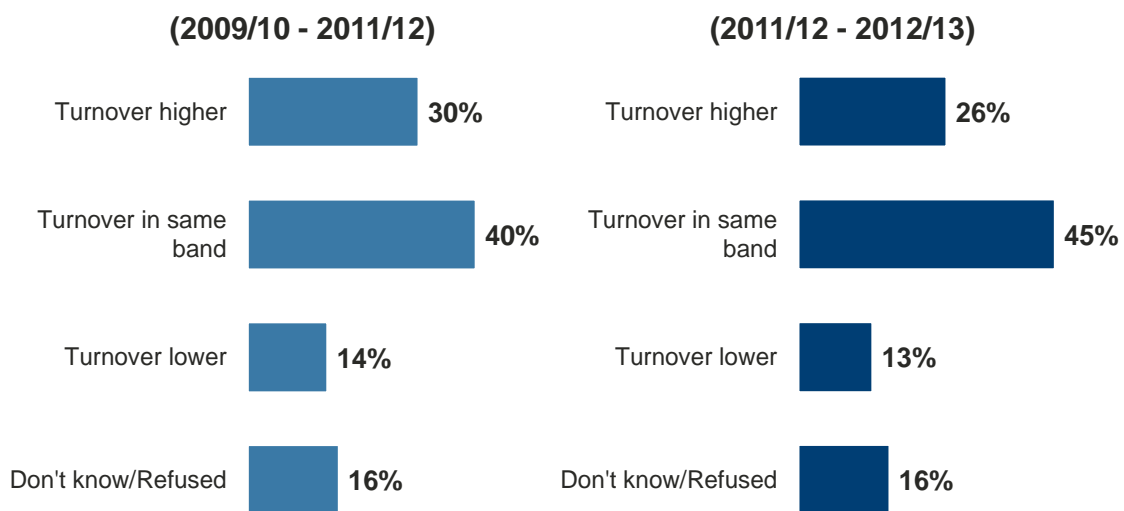
Fieldwork dates: 20th November 2013 – 26th January 2014

However within this there was some ‘churn’, i.e. movement in turnovers of individual businesses both up and down that average out to no change at the aggregate level. Figure 6.4 below shows the ‘movement’ between financial years, and it can be seen that in each year the overall pattern is for turnover to grow among incorporated companies that operated in the same business prior to incorporation; in each year those whose turnover increased outnumbered those whose turnover fell by around two-to-one. But also in each year the biggest group, around two in five of these companies, had their turnover remain in the same band.

Figure 6.4 Turnover changes between 2009/10-2011/12 and 2011/12-2012/13

Q What was the turnover for your company for the financial year?

Changes between financial years



Base: Sole trader / in a partnership and it was the same business prior to incorporation and they had been operating for 2+ years before incorporation (167); 2011/12 – 2012/13 additional criterion that business still owned by respondent (157)
Fieldwork dates: 20th November 2013 – 26th January 2014

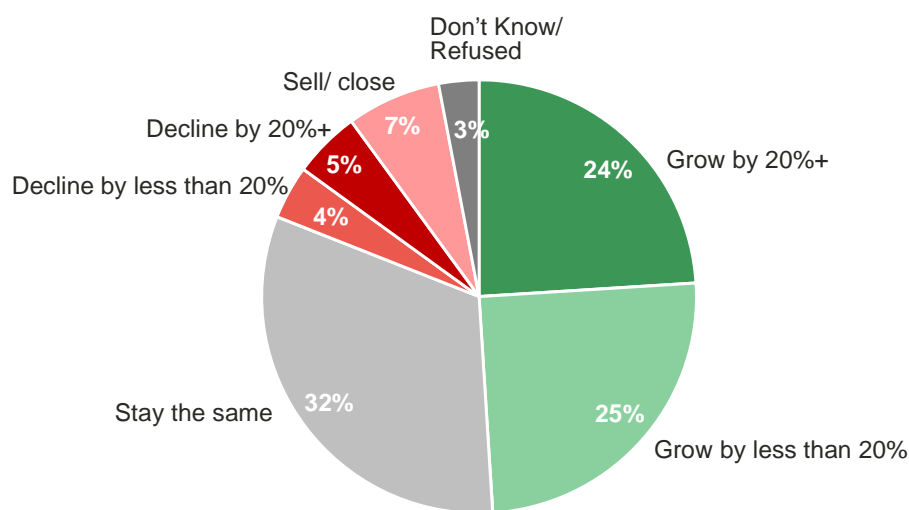
As noted below (section 6.3), many respondents saw a substantial cut in personal remuneration following incorporation; however, the analysis in this section suggests that this was likely to have been part of a remuneration strategy, rather than because of a fall in business revenue. The findings from the qualitative research also suggest this.

6.2. Expectations for future growth

Around half of respondents (49 per cent) said they expected their company to grow in the next 12 months, with 24 per cent expecting growth of 20 per cent or more. A third (32 per cent) expected turnover to stay the same, while nine per cent expected a decline. A further six per cent expected to close the business or sell it on.

Figure 6.5 Expectations for future growth

Q Which of the following do you feel describes your expectations for the company over the next 12 months?



Base: All who still own business (865). Fieldwork dates: 20th November 2013 – 26th January 2014

Companies that expected to grow were typically larger: 78 per cent of those with five or more employees expected to grow in the next 12 months. Those with a higher turnover were also more likely to expect to grow (56 per cent of those with a turnover of £100,000 or more); by contrast, 15 per cent of those with a turnover of under £25,000 expected to close the business or sell it on. Companies that made a loss in 2012/13 were also more likely to expect to grow in the following 12 months (62 per cent).

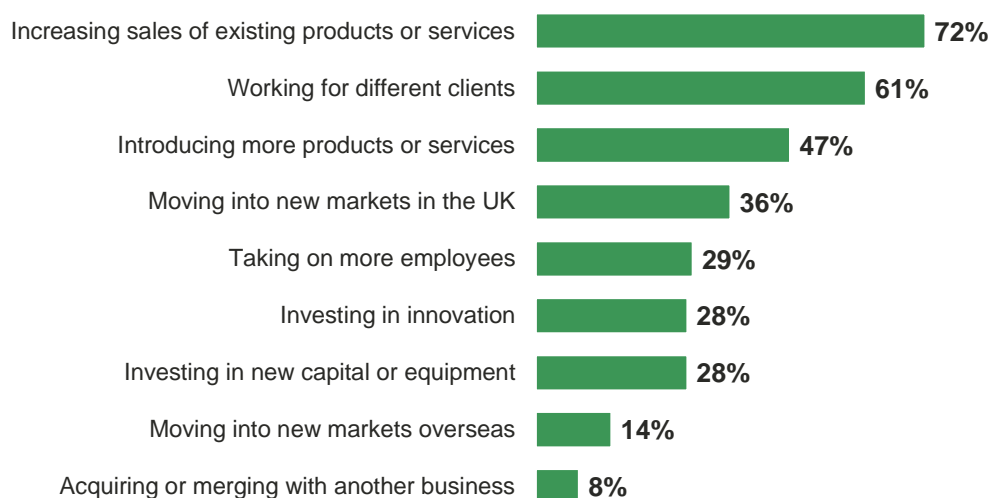
Companies with a turnover of between £50,000 and £100,000 were most likely to expect turnover to stay the same in the next 12 months (40 per cent).

Respondents who expected their company to grow in the next 12 months were asked **how they were planning to achieve this growth**. The plans mentioned by respondents were similar to the things that had actually produced growth in the

previous year (as described in section 6.1). The main ways that respondents expected to achieve growth were by increasing sales of existing products or services (72 per cent) or working for different clients (61 per cent). In addition, some companies planned to introduce more products or services (47 per cent), move into new markets (36 per cent in the UK and 14 per cent overseas), or take on new employees (29 per cent). Figure 6.6 provides further details.

Figure 6.6 Plans for achieving growth

Q How are you planning to achieve this growth?



Base: All who expect their business to grow over the next 12 months (422). Fieldwork dates: 20th November 2013 – 26th January 2014

Where companies **planned to grow by taking on more staff** (12 per cent of all companies), they were often planning to recruit in large numbers: 23 per cent of them planned to take on four or five new employees in the next two years, while 21 per cent planned to take on more than five.

When prompted, even some companies who did not expect to grow in the next twelve months said that they planned to take on more staff in the next two years. In total – and including those companies that expected to grow - 24 per cent of *all* companies that were still trading and owned by the respondent expected to recruit over the next two years.

6.3. Remuneration strategy

Overall remuneration strategy

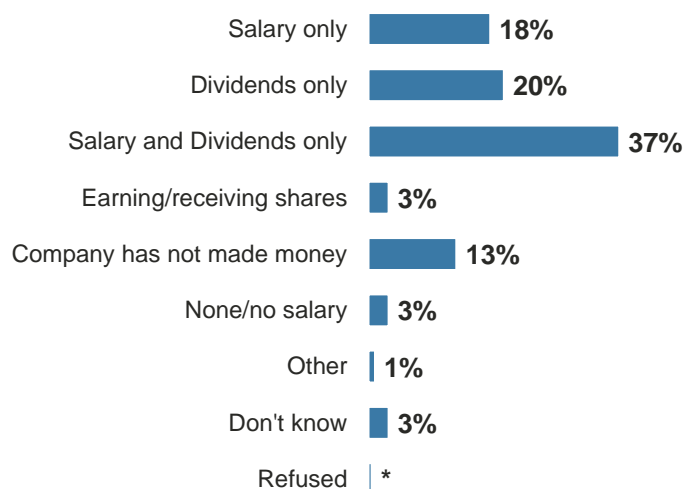
This section looks at the use of dividends and salary as part of a remuneration strategy. Companies may choose to provide personal remuneration through dividends, which are taxed at a lower rate than salary and do not involve NI contributions. The findings on remuneration strategy are closely linked with those on business growth, since by definition dividends can only be used by companies making a profit.

In 2013/14 the PAYE annual tax threshold was £9,440 per year, while the National Insurance Contributions Primary Threshold was £7,755 per year. As outlined in this chapter many respondents indicated that they are remunerated by a combination of a salary and dividends, and some explained in the qualitative research that this was constructed for maximum tax efficiency. Furthermore, many of the salary figures cited in the qualitative research (e.g. c.£650-£800 per month level), may indicate a salary set just below the PAYE tax threshold.

The most common remuneration strategy used by companies in the survey was a combination of salary and dividends (37 per cent), while 18 per cent used salary only and 20 per cent dividends only. One in eight respondents (13 per cent) said that the company had not made any money.

Figure 6.7 Directors' remuneration strategy since incorporation

Q Which of the following forms part of the directors' remuneration strategy since incorporation?



Base: All respondents (1,004); Fieldwork dates: 20th November 2013 – 26th January 2014

The use of salary was more common in companies that had employees (in addition to the respondent). Two-thirds (66 per cent) of companies with employees used salary (with or without dividends) compared with only 50 per cent of companies without employees.

As noted above, remuneration strategies inevitably tie in with profitability. Reflecting this, the use of combined salary and dividends was more common among companies with a higher turnover (52 per cent of those with a 2012/13 turnover of £50,000 or more), as well as those making a profit (53 per cent). In terms of personal remuneration, the use of dividends (with or without salary) differed substantially between those earning £25,000 or more per year and those earning less than £25,000 (90 per cent compared with 46 per cent).

If we look specifically at companies that used salary only for remuneration, only 51 made a profit in 2012/13, while 27 per cent made a loss. Among those who made a profit, the majority (57 per cent) made a profit of less than £10,000.

Respondents who had been self-employed with the same business prior to incorporation were more likely than others to use combined salary and dividends (48 per cent of these companies used this remuneration strategy), as were those who

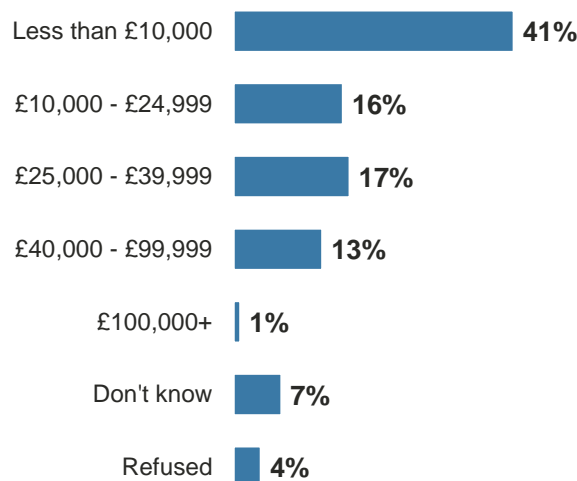
incorporated in order to make savings in tax and NI (51 per cent did so). Those who used an external agent were also more likely than those who dealt with administration internally to use combined salary and dividends (41 per cent compared with 31 per cent).

Personal remuneration

Respondents were asked about their current personal remuneration. Two in five (41 per cent) said it was less than £10,000 per year, and only 15 per cent gave a figure of £40,000 or more.

Figure 6.8 Personal remuneration in 2012/13

Q Approximately what was your personal remuneration from the company in the last financial year (2012/13)? This would include any salary, dividends and any payout from shares during the year.



Base: All who still own business (865). Fieldwork dates: 20th November 2013 – 26th January 2014

Smaller levels of personal remuneration (under £10,000 per year) were more common in companies with a low turnover (85 per cent of those with a turnover of less than £25,000) and among those that did not make a profit in the last financial period (71 per cent). Related to this, they were also more common where administration was handled internally rather through an external agent (50 per cent compared with 35 per cent).

As noted above, there was a link between the use of salary *and* dividends and higher personal remuneration. Indeed, when based on those who only took a salary and no

dividends, 46% had personal remuneration of less than £10,000, while for those who took dividends and no salary 47% had personal remuneration of less than £10,000. For those who used salary *and* dividends the equivalent figure was just 15%.

Lower personal remuneration was also more common where the respondent had previously been a director (56 per cent less than £10,000 per year) or was not working previously (55 per cent).

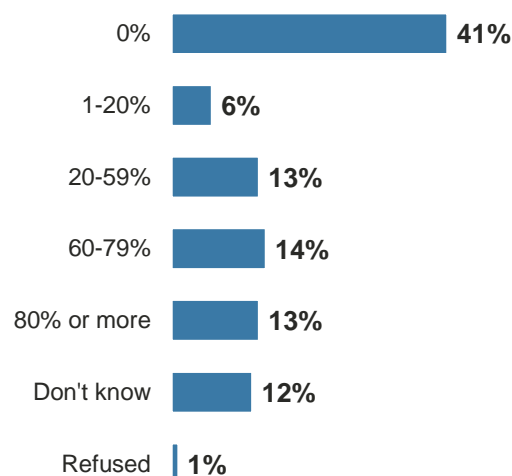
If personal remuneration at the time of the survey is compared with earnings in the year before incorporation, it is clear that many respondents had taken a substantial cut in personal remuneration, and this is most pronounced for those who were formerly employees. In this group, 39 per cent said their current remuneration was under £10,000 per year, but the corresponding figure for the year before incorporation was just six per cent. This held also for those who were previously self-employed in the same business prior to incorporation, with 13% in this group having a personal remuneration of less than £10,000 in the 12 months prior to incorporation, compared with 35% earning this amount in the 2012/13 financial year, following incorporation. It is important to note that these reductions in personal remuneration may reflect remuneration strategies, as noted above.

Proportion of remuneration drawn from dividends

Fifty-nine per cent of respondents said they used dividends in some way, and this is reflected in Figure 6.9 below where it can be seen that among all respondents who still owned their business, 41% drew nothing at all from dividends in 2012/13. There is also a variation among those who did draw dividends, with 6 per cent of respondents who still owned their business saying that less than 20% (but more than none) of their personal remuneration was drawn from dividends, while one in eight each said that 20-59%, 60-79% and at least 80% was drawn from dividends (13 per cent, 14 per cent and 13 per cent respectively). Further details are shown in Figure 6.9.

Figure 6.9 Proportion of remuneration drawn from dividends in 2012/13

Q In the last financial year, roughly what proportion of your remuneration, if any, was drawn from dividends?



Base: All who still own business (865). Fieldwork dates: 20th November 2013 – 26th January 2014

If we focus only on respondents who used a remuneration strategy of combined salary and dividends, a wide variation can be seen in the proportion of total remuneration drawn from dividends: from 17 per cent drawing less than 20 per cent of their remuneration from dividends, to 15 per cent drawing 80 per cent or more.

Remuneration strategy: qualitative findings

The qualitative interviews were conducted with respondents who indicated in the survey that tax and National Insurance savings influenced their decision to incorporate or was a benefit of incorporating. For those participating in the qualitative interviews, it was common for remuneration strategies to be designed for maximum tax efficiency, and this was usually advised by an accountant. It is important to bear this in mind when interpreting the quantitative findings; for example, some of the large reductions in personal earnings since incorporation may be the result of remuneration strategies (e.g. involving keeping money in the business) rather than 'real' reductions in earnings. Indeed, some of those interviewed in the qualitative research explained that they were drawing minimal income from the business due to the need to keep money in the business, or for other reasons such as not needing the money due to previous wealth or having other sources of income and therefore allowing them to keep as much money in the business as possible.

The qualitative research highlights examples of the main remuneration strategies:

Strategy	Example
Salary only	Respondent uses a structured pay system that avoids the dividend system. He is able to predict what is going to come into the business very accurately over the next year, so can be confident enough to set a high enough salary.
Dividends only	Because this respondent is paid a pension (£18k), the accountant recommended he should pay himself solely through dividends (£22k, which keeps him below higher rate income tax).
Salary and dividends	Respondent's wife is the company book keeper and they both take the minimum salary and the rest through dividends. This was advised by their accountant as the most tax efficient route.

Those using a combination of salary and dividends were usually aware of the 20 per cent tax rate associated with dividends (this is the combined effective rate of corporation tax and income tax on dividends for basic rate taxpayers). Often this strategy involved a minimum salary (in line with income tax thresholds) with the remainder drawn in dividends. The details were usually advised by an accountant.

In the qualitative interviews, there were also examples of respondents who wanted to keep money in the business, and as a result took a relatively low amount of personal remuneration. This could be because of the need for strong cash flow (where the business incurs large expenses or one-off payments), or to provide a buffer against poor financial performance. In another example, a respondent was nearing retirement and considered it more efficient to keep the money in the company and invest it (to earn more money).

The qualitative interviews also highlighted examples of quite complex arrangements. In one example, the respondent drew a salary while the other director was paid in dividends in relation to the value of contracts won. Some of the revenue was also retained in order to build up the business. Case study 2 provides one example of how a company approached its remuneration strategy.

Case study 2: Tax efficient remuneration

- The respondent offers sales support to a printing firm.
- He was attracted to incorporation because of tax efficiency benefits: i.e. the prospect of reduced liabilities compared with being a sole trader, as well as his ability to claim travel and phone costs and the ability to claim back VAT.
- He estimates incorporation has saved him in the region of 10-15% on his tax bill.
- Any advice that he took in advance of the decision was informal and came largely from two friends who are IT consultants with their own limited companies. He felt confident making the decisions, in part because he has lots of experience of different company structures and has been self-employed as a sole trader or in partnerships for the past 26 years.
- He gives himself £800 per month as a salary, paying a minimum in income tax and National Insurance. He tops this up with a further £2k per month in dividends (taxed at 20%).
- Also, he has been able to use the company to employ and pay his teenage daughter while she is studying. She helps him with sales calls and he pays her £500 per month through the business. This is below the tax-free threshold to her and is a more tax efficient way of him supporting her as a student. The added benefit is that he gets extra help in the business.

The qualitative research also covered the use of benefits by companies. Some claimed travel expenses from the business, but otherwise the businesses were often not yet at the stage to offer additional benefits to shareholders or directors. However, some respondents said that they were likely to consider certain benefits (such as health insurance) in the future.

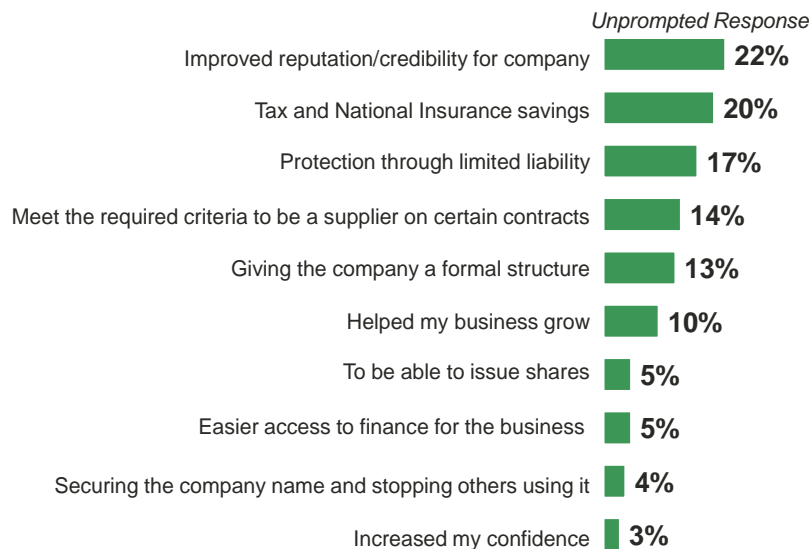
6.4. Main benefits of incorporation

Having incorporated, the main benefit of incorporation was seen as the improved reputation or credibility that it gave the company (mentioned by 22 per cent without

prompting), followed by tax and NI savings (20 per cent). Other benefits were the protection provided through limited liability (17 per cent), ability to meet contract criteria (14 per cent), giving the company a formal structure (13 per cent) and allowing the company to grow (10 per cent).

Figure 6.10 Main benefits of incorporation

Q What have/were the main benefits of incorporation?



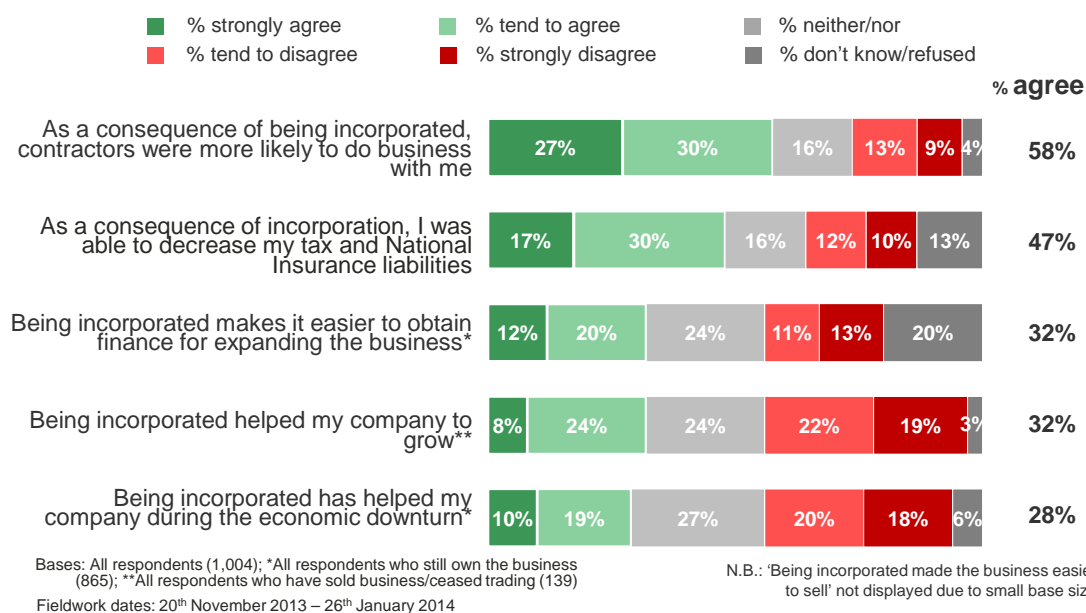
Base: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

Respondents who had the same business prior to incorporation (37 per cent of this group) and those who were previously in a partnership (39 per cent of them) were more likely than other respondents to say that tax and NI savings were a benefit. Those who had a remuneration strategy of combined salary and dividends were also more likely than others to say this.

When prompted with some possible benefits of incorporation, almost half (47 per cent) agreed that they were able to decrease their tax liabilities, while 23 per cent disagreed. Most respondents agreed that contractors were more likely to do business with them as a consequence of incorporation (58 per cent). However, the other possible benefits received a mixed response: a third agreed that being incorporated makes it easier to obtain finance to expand the business (32 per cent), but 24 per cent disagreed; while 28 per cent agreed that being incorporated helped them during the economic downturn (38 per cent disagreed).

Figure 6.11 Attitudes towards incorporation

Q Thinking about your business, to what extent do you agree or disagree with each of the following?



As was the case for the unprompted findings on anticipated benefits, respondents were more likely to agree that incorporation had helped them to decrease their tax liabilities if they had a remuneration strategy that included combined salary and dividends (65 per cent). They were also more likely to agree if they had the same business prior to incorporation (59 per cent). This could be because these respondents can directly compare the tax liabilities arising from the same business before and after incorporation. In addition, respondents with higher personal remuneration (58 per cent of those with personal remuneration of £25,000 or more per year) and those with a turnover of between £25,000 and £100,000 (60 per cent) were more likely to agree.

Most respondents who said that tax and NI savings were a motivation for incorporating agreed that it had helped them to decrease their liabilities (81 per cent).

In the **qualitative interviews**, respondents referred to the same types of benefits, including tax and NI savings. In most cases, respondents said that the benefits had been in line with their expectations, although some said that they had gained

unexpected benefits, or that the extent of the benefits had been greater than anticipated. In particular, some were pleasantly surprised about the enhanced credibility that incorporation had given their business.

Three examples illustrate the ways in which the enhanced credibility from incorporation had helped businesses:

- One respondent said that incorporation had “given them a foot in the door” with large, multinational clients, which would have been quite hard as a self-employed individual;
- Another respondent said that it had made things easier for the business, as their incorporated status had helped to reassure clients' and contractors' questions about the business; and
- In a third example, the respondent said that being incorporated had played a part in a “virtuous circle of expansion”, in which reputational benefits and word-of-mouth recommendations led to further expansion. As a result, the business had grown to the point where it had 19 employees and as many as 60-70 operatives working for them at peak season.

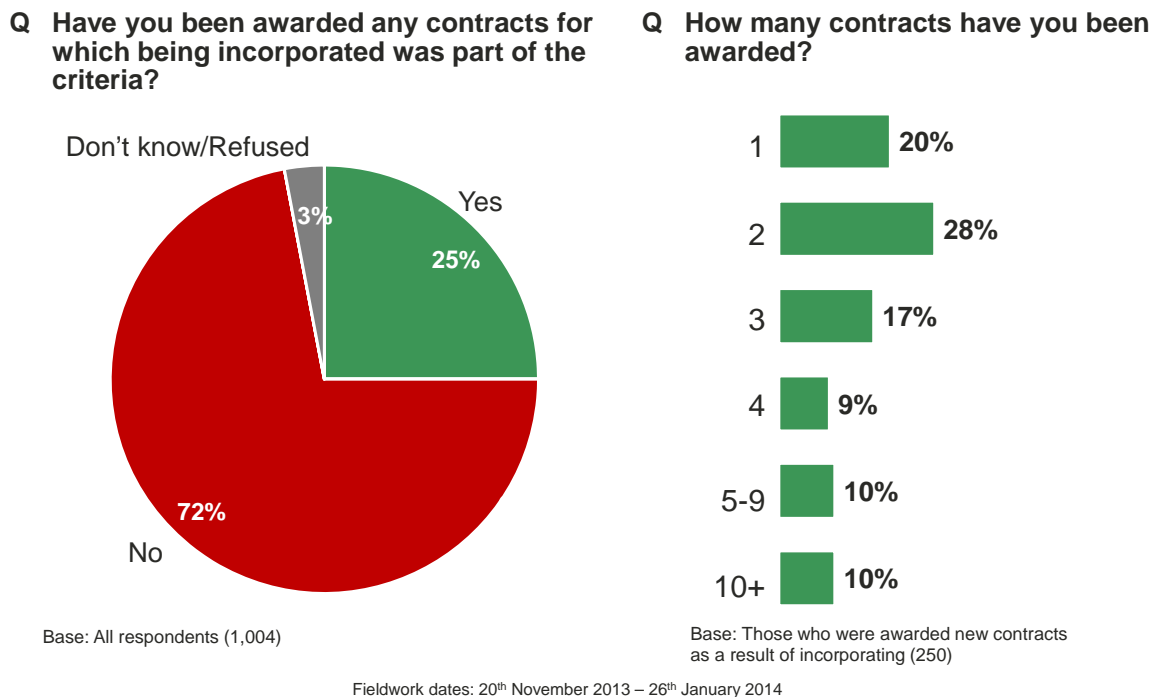
The qualitative interviews also raised some additional, unexpected advantages, such as being able to get insurance for the business more easily, and being able to support their local community through sponsorships.

Overall, there was a broad distinction between respondents who saw major benefits in incorporation, and those who saw only marginal benefits or viewed it as nothing more than an administrative necessity. In the first category were respondents who had benefitted from tax and NI savings, enhanced reputation and credibility, and the ability to gain additional contracts. In the second category, respondents were less likely to see these benefits, and were more likely to see the administration as a burden (discussed further below in section 6.6). As seen in the quantitative findings below (also in section 6.6), attitudes to the administrative burden were linked to financial position: those with a low turnover or who did not make a profit were more likely to see the administration as a burden on their business.

6.5. Contracts awarded since incorporation

As seen above (section 6.4), 14 per cent of respondents said that one of the main benefits of incorporation was the ability to meet contract criteria. When asked about this issue directly, a quarter (25 per cent) said that they had been awarded contracts for which they had to be incorporated.

Figure 6.12 Contracts awarded for which being incorporated was part of the criteria



Companies in certain sectors were more likely to have been awarded contracts for which being incorporated was part of the criteria: professional, scientific or technical (33 per cent) and administrative or support services (33 per cent). This was also more common among business without any employees (31 per cent) and among respondents whose previous employer was now a client (42 per cent).

While many of these companies had been awarded just one (20 per cent) or two contracts (28 per cent) for which being incorporated was part of the criteria, 20 per cent had been awarded five or more such contracts.

The overall value of these contracts varied: in 16 per cent of cases, the value was less than £10,000, but 26 per cent said that the total value was £100,000 or more. Among companies that were still trading, 70 per cent said that these contracts were still active.

The **qualitative** interviews included respondents who had benefitted from these types of contract, and some of these respondents saw this as a major benefit of incorporation; one respondent said it had “saved the business”, by helping them to win work.

6.6. Perceptions of administrative burden

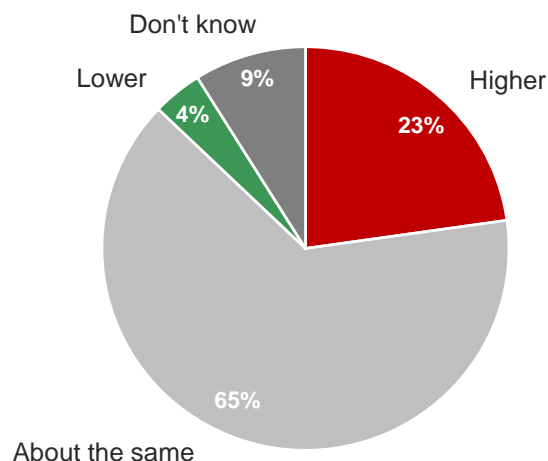
As discussed earlier in the report (section 5.4), the possibility of increased administration or paperwork was one of the main concerns that respondents had prior to incorporation, along with the costs associated with this increased administration.

Attitudes to administrative costs

Most respondents (65 per cent) said that the overall cost of administrative tasks related to incorporation were about the same as they expected, although 23 per cent thought that they were higher (four per cent said they were lower).

Figure 6.13 Attitudes to administrative costs

Q Do you think that the overall costs of these activities, including any external services you use to undertake them, are higher, lower or about the same as you expected prior to incorporating?



Base: All respondents (1,004); Fieldwork dates: 20th November 2013 – 26th January 2014

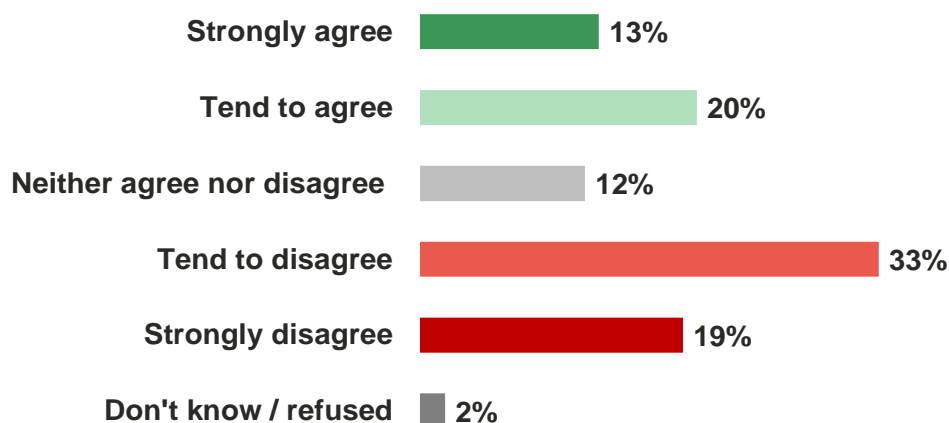
Respondents were more likely to say that costs were higher than expected if the company had a low turnover (30 per cent of those with a turnover of under £25,000). This was also more common where respondents had received unpaid advice prior to incorporation (33 per cent), and where they had limited advance knowledge of incorporation (28 per cent of those who know little or nothing about it). However, there was no difference between those that used an external agent and those who carried out administration internally.

Burden of administration

A third of respondents (34 per cent) agreed that the administration was too much of a burden on their business, although 53 per cent disagreed.

Figure 6.14 Burden of administration

Q To what extent do you agree or disagree with the following - the administration is/was too much of a burden on my business?



Bases: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

Attitudes to the administrative burden were linked to financial position: those with a low turnover (less than £25,000) were more likely to agree that the administration was too much of a burden (44 per cent), as were those who broke even (49 per cent) or made a loss (42 per cent) rather than made a profit (28 per cent). Similarly, those who had not made tax savings through incorporation were more likely to agree that the administration was too much of a burden than those who had made savings (40 per cent of those who had not made tax savings compared with 30 per cent of those who had made savings).

We did not prompt companies specifically either in the quantitative or qualitative research on the matter of why those who considered administration too much of a burden remained incorporated. But the best evidence from both research phases is that even though the administration burden is a downside for some, in many cases the benefits of incorporating still outweigh this. For example, even among those who agreed that administration was too much of a burden 71% would recommend incorporation to someone in a similar position to them before they incorporated, and only 20% of them would not recommend it.

Once again, there was no difference between those that used an external agent and those who carried out administration internally.

Those who agreed that administration is too much of a burden were not any more likely to have plans to disincorporate, nor were there any significant differences in their detailed disincorporation plans. Indeed the only significant difference on the subject was that those who agreed that administration is too much of a burden were *less* likely to be aware of disincorporation relief (nine per cent being aware of the relief vs. 16 per cent of those who disagreed administration is too much of a burden).

In the qualitative interviews, respondents raised various aspects of the administrative burden that could be problematic. The first was simply the amount of paperwork involved.

“That’s [form filling] the only annoying thing about it. So I do my VAT returns every quarter, so that’s four returns a year there, and then I’ve got to do the company tax thing, times two and then the personal tax as well.”

Scientific/professional/technical sector, trading with same ownership

“Incorporation requires a lot of energy, lots of reading and forms to complete, it requires time and willpower. You need to find about it all, contact colleagues, contact an accountant, weigh it all up, separate things mentally, put all the structures in place, so it’s a lot!”

Agriculture sector, trading with same ownership

In some cases, respondents found that it was time-consuming to resolve specific queries. For example, one respondent found it very difficult to understand the process for VAT when dealing with an overseas client.

Finally, some respondents referred to the 'pitfalls' of the administrative process, involving numerous obligations all with their own deadlines and fines for late completion. One respondent described this as "debt by a thousand cuts", pointing out that the penalties could be quite serious for any mistakes or late returns.

"Without an accountant you could get into trouble very quickly and very easily. I would have struggled with all the forms that you actually fill in."

Finance and insurance sector, trading with same ownership

Case study 3 shows one business that associates incorporation with increased administrative burden.

Case study 3: Multiple tax returns and amount of paperwork

- A retired policeman runs two businesses with his wife: one is a limited company and the other as a sole trader.
- He incorporated principally to save tax as well as so he can cross-charge rent for premises from one business to the other.
- He estimates that incorporation saves in the region of 10-15% on his tax bill.
- His current remuneration structure was based largely on the advice of his accountant, but he also consulted the local council and self-employed family members.
- An additional benefit of incorporation that he hadn't anticipated in advance has been the added credibility his limited company status gives him with the companies he works for. He is considering registering for VAT for exactly this reason, even though he does not have the turnover to justify it.
- The main drawback of incorporation has been the amount of paperwork and the time it takes. He has to complete seven tax returns per year. To him this seems excessive. His daughter has a business degree but has been put off setting up her own business because of the amount of paperwork involved.

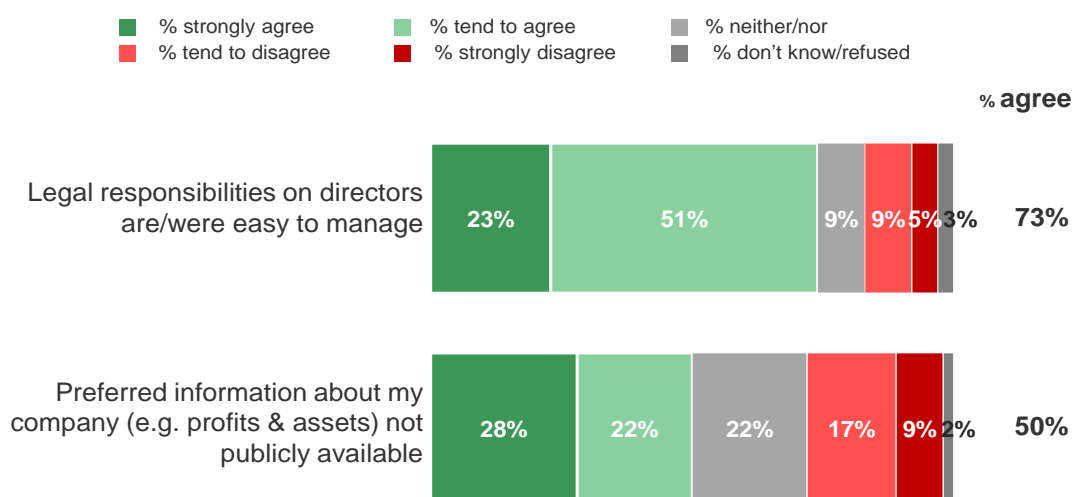
Other aspects of incorporation

Respondents were also asked about other aspects of incorporation. Around three-quarters (73 per cent) agreed that the legal responsibilities on directors were easy to manage.

Half (50 per cent) agreed that they would have preferred it if information about their company was not publicly available. One respondent in the qualitative interviews commented on this, saying that she found it “intrusive” having her information publicly available on the internet, and had not anticipated this at the time of incorporation.

Figure 6.15 Views on other aspects of incorporation

Q To what extent do you agree or disagree with each of the following ..?



Bases: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

Use of external agents

The majority of companies in the survey (63 per cent) used an external agent or advisor for most or all of their tax administration, while 36 per cent do most or all of the work internally. The use of an external agent was higher among companies that had a remuneration strategy of combined salary and dividends (69 per cent), while larger companies (with five or more employees) were more likely to do most or all of the work internally (44 per cent).

Respondents who had the same business before incorporation were asked whether their use of external agents had changed since incorporation. The majority (82 per cent) said there had been no change, while 16 per cent said that more was now done by an external agent; just two per cent said they used an external agent less since incorporation.

6.7. Information and communications

In the qualitative interviews, respondents were asked if they had any suggestions for how the process of incorporation could be improved. Where respondents had suggestions, they mainly related to information and communications. One of the main suggestions was for clear, easily accessible information about incorporation.

“Incorporation ought to be more widely known and publicised - how beneficial it can be for tradesman and especially vis-a-vis the insurance/protection angle.”

Construction sector, trading with same ownership

In particular, some respondents requested a single document or point of information that would draw together the main points that businesses need to know.

“A ‘dummy’s guide’, two pages at most of bullet points - director and employee rights, salary options, paying corporation tax, doing returns, you can disincorporate, all relevant costs etc.”

Health sector, trading with same ownership

Other respondents thought that there could be an online/smart tool that could provide more tailored guidance if businesses entered information about themselves.

“A ‘smart tool’ on a website to advise people on tax/VAT, legal and accountancy issues depending on their individual circumstances, although I think Business Link have attempted this to some extent.”

Admin and support sector, trading with same ownership

Several respondents felt that that existing information used language that was difficult to understand, in particular in relation to tax information.

“There’s all sorts that set up businesses, there’s people that just have no idea about accounting, about admin, all they know about is the trade that their selling .. and that’s all they know about and people like that might find it really hard...I think for people that know what they’re doing it’s easy, but for people that don’t I think it’s not as accessible and they don’t really have the information at their fingertips.”

Wholesale and retail sector, trading with same ownership

7. Disincorporation

CHAPTER SUMMARY

- (i) Seven per cent of companies reported they had disincorporated by the time of the survey. In addition, five per cent of respondents who still owned their business said they had plans to disincorporate.
- (ii) Both the quantitative and qualitative research indicates possible confusion regarding the concept of disincorporation.
- (iii) One in eight respondents said that they were aware of disincorporation tax relief.

This chapter examines experience of disincorporation and plans to disincorporate in the future. Disincorporation means a transfer of a business from being an incorporated company to being an unincorporated business, such as a sole trader or partnership. It also looks at awareness of disincorporation tax relief.

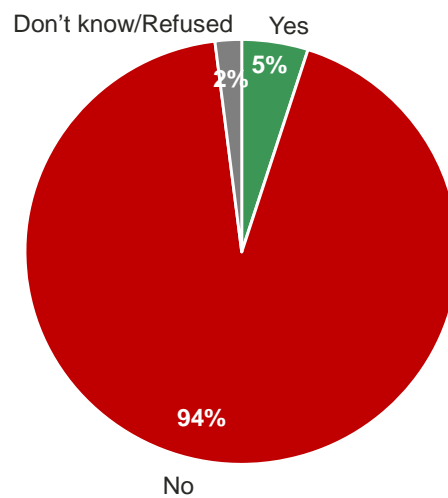
7.1. Experience of and plans for disincorporation

In total, seven per cent of businesses said they had disincorporated by the time of the survey. This increased to 42 per cent for those businesses that had been sold on or had ceased trading. This finding potentially suggests an element of confusion regarding the concept of 'disincorporating' a business. Respondents may be incorrectly equating it with ceasing trading or dissolving their business, as opposed to removing the corporate structure and resuming trade as a self-employed individual.

In addition, five per cent of respondents who still owned their business said that they had plans to disincorporate. This was higher among companies in administrative and support services (eight per cent). It was also higher among companies with a low turnover (ten per cent of those with a 2012/13 turnover of under £25,000).

Figure 7.1 Plans to disincorporate

Q Do you have any plans to disincorporate this company?



Base: All who still own business (865); Fieldwork dates: 20th November 2013 – 26th January 2014

Respondents who claimed to have disincorporated, or who were planning to do so, were asked for the reasons. Most commonly, respondents said that the business was declining or was being wound down (44 per cent). Nine per cent were going back to a job as an employee and nine per cent were about to retire. These findings further suggest that there may be uncertainty around the concept of 'disincorporation'. This is because in these contexts, individuals might be expected to cease trading rather than removing the corporate structure of their business and continuing as self-employed.

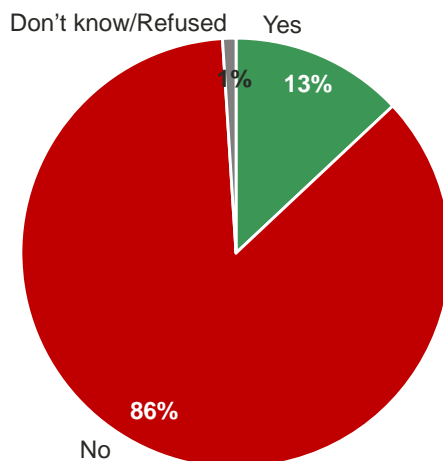
There were also some responses that were directly related to incorporation: nine per cent said that it was because administration was more complicated with incorporation, seven per cent said that being incorporated was no longer relevant to their business model, while five per cent said that incorporation didn't have the expected benefits in terms of growth or sales, and four per cent said that incorporation didn't bring the expected savings in tax and NI.

7.2. Awareness of disincorporation tax relief

One in eight respondents (13 per cent) said that, before the survey, they were aware of disincorporation tax relief.

Figure 7.2 Awareness of disincorporation tax relief

Q Can I just check, before taking part in this research were you aware of disincorporation tax relief?



Base: All respondents (1,004). Fieldwork dates: 20th November 2013 – 26th January 2014

Awareness of disincorporation tax relief was higher among companies with a higher turnover (17 per cent of those with a 2012/13 turnover of £100,000 or more), and among those who carried out their own administration rather than using an external agent (17 per cent compared with 11 per cent). Awareness was lower in the wholesale, retail, accommodation or food sectors (three per cent).

7.3. Findings from qualitative interviews

In the qualitative interviews, respondents expressed very low levels of knowledge of disincorporation. As suggested above, some respondents assumed that disincorporation meant winding the company down or ceasing to trade. Very few respondents had considered disincorporation.

“Unless somebody tells me a massive disadvantage to incorporation, the only time it’ll happen is when I retire and the business closes. Well in which case I don’t suppose it’d be disincorporated, it would just cease trading.”

Construction sector, trading with same ownership

Hardly any of the qualitative respondents were aware of disincorporation tax relief, and respondents were unclear on the benefits. Several respondents said that the availability of tax relief would not make any difference to their future decisions over the company.

“It strikes me as an incentive without a marketplace.”

Wholesale and retail sector, trading with same ownership

8. Conclusions

This research has examined the motivations and experiences of incorporation among small businesses. These findings are important for HMRC in understanding the large increase in the number of small businesses incorporating in recent years. Given the many factors that individuals may take into account when establishing a company it is important for HMRC to have a greater understanding of these motivations, whether they be related to tax, administrative burdens, ease of doing business or other factors. This will help HMRC more accurately predict the number of incorporations and target policies to aid company growth.

Types of business that incorporate

The research focused on small businesses – specifically, those that had fewer than ten employees and six directors at the time of incorporation. Businesses in the survey came from a range of industry sectors, and respondents had varied pathways to incorporation⁷:

- One in five were self-employed in the same business prior to incorporation. These were often well established businesses that were making a profit and had recently experienced a period of growth;
- Almost half were formerly an employee; 15 per cent of these respondents said that their former company became a client of their newly incorporated company; and
- Three in ten said that they had owned other limited companies prior to the business being incorporated.

Family members were involved in many incorporated businesses. In total, almost a quarter of companies in the sample had directors who were related to the person who incorporated the business.

⁷ Note that the three pathways to incorporation are not mutually exclusive.

Knowledge and information

Most respondents knew little or nothing about incorporation before getting involved, and qualitative interviews indicated two broad scenarios for becoming interested in incorporation: the first is where respondents had little knowledge, and an accountant suggested it to them; these respondents were often happy to take the accountant's advice without getting further information. Respondents with greater knowledge of incorporation were more likely to have the idea themselves. In these cases, it was common for the respondent to have the initial idea, but then for an accountant to reinforce the idea and to provide additional advice.

Most respondents said they received paid help or advice in seeking to incorporate and, given the low levels of advance knowledge about incorporation, it is clear that this advice can often have an important influence on motivations and behaviour.

Why businesses incorporate

Businesses were incorporated for a variety of reasons. The most common reasons cited on an unprompted basis were the protection offered by limited liability (24 per cent), tax and National Insurance savings (19 per cent), the ability to comply with certain contract criteria (15 per cent), enhanced credibility (13 per cent) and the provision of a formal structure (12 per cent).

For some respondents, tax and NI savings had no bearing on the decision to incorporate, while in other cases it was the prime motivation. The qualitative interviews also identified a scenario, in which respondents originally incorporated their business for reasons other than tax and NI savings reasons – such as limited liability protection, getting contracts or establishing credibility – but once the business was incorporated and became profitable, they recognised the financial benefits of incorporation and used particular strategies to reduce their tax liability.

Experiences since incorporation

Around two-thirds of companies interviewed (65 per cent) made a profit in 2012/13, while 19 per cent made a loss and nine per cent broke even. Respondents who had owned other limited companies prior to the business being incorporated were more

likely to make a loss, compared with those who had taken other routes to incorporation.

Respondents who incorporated in order to make tax and NI savings were more likely than other respondents to make a profit. The most common remuneration strategy used by companies in the survey was a combination of salary and dividends (37 per cent), while 18 per cent used salary only and 20 per cent dividends only. One in eight respondents (13 per cent) said that the company had not made any money. The findings on remuneration strategy are closely linked with those on business growth, since by definition dividends can only be used by companies making a profit.

Where respondents had the same business before they incorporated, it is possible to compare the company's turnover in the year before, and the year after, incorporation. This analysis shows that at the overall level there was little change in turnover before or in the year after incorporation. However, many respondents saw a substantial cut in personal remuneration following incorporation, including among those who were self-employed in the same business prior to incorporating. This suggests that cuts in personal remuneration were often part of a remuneration strategy, rather than because of a fall in business revenue. The findings from the qualitative interviews confirm this.

Attitudes to incorporation

Most respondents were positive about their experience of incorporation. Four in five said that they would recommend incorporation, if they knew someone in a similar position to their own before they incorporated. Positive views were particularly common where the company had been successful.

Benefits of incorporation

Having incorporated, the main benefit of incorporation was seen as the improved reputation or credibility that it gave the company (mentioned by 22 per cent without prompting), followed by tax and NI savings (20 per cent). Other benefits were the protection provided through limited liability (17 per cent), ability to meet contract criteria (14 per cent), giving the company a formal structure (13 per cent) and allowing the company to grow (10 per cent).

These benefits were similar to the reasons for incorporating, indicating that the benefits experienced by businesses were generally in line with their expectations.

Drawbacks of incorporation

At the time of incorporation, many respondents did not think there would be any drawbacks to incorporating. For the remainder, there were two main areas of concern. The first was around increased work due to additional paperwork and administration, while the other main area of concern related to costs (the cost of employing an accountant, increased set-up or running costs or additional tax payments).

A third of respondents (34 per cent) agreed in retrospect that the administration involved in incorporation was too much of a burden on their business, although 53 per cent disagreed. Attitudes to the administrative burden were linked to financial position: those with a low turnover or who did not make a profit were more likely to see the administration as a burden on their business.

The role of tax and NI savings in incorporation

The key findings for motivations and benefits relating to tax and NI savings are summarised below. It is important to view these findings in the context of the survey findings as whole, which show that tax and NI savings are part of a range of motivations and benefits of incorporation, and is not the most common motivator or benefit.

One in five respondents (19 per cent) said (unprompted) that tax and NI savings were one of the main reasons for incorporating. When prompted, three in five (61 per cent) agreed that tax and NI savings were an important consideration in their decision to incorporate, including 30 per cent who strongly agreed that this was the case.

Retrospectively, one in five respondents (20 per cent) said (without prompting) that tax and NI savings were one of the main benefits of having incorporated. When prompted, around half (47 per cent) said that incorporation had allowed them to decrease their tax and NI liabilities.

Certain types of businesses were more likely to be motivated by tax and NI savings, and to say that this was one of the main benefits of incorporating:

- Respondents who had the same business prior to incorporation; and
- Those who, after incorporating, used a remuneration strategy including combined salary and dividends.

The qualitative interviews indicated a broad distinction between respondents who saw major benefits in incorporation, and those who saw only marginal benefits or viewed it as nothing more than an administrative necessity. In the first category were respondents who had benefitted from tax and NI savings, enhanced reputation and credibility, and the ability to gain additional contracts. In the second category, respondents were less likely to see these benefits, and were more likely to see the administration as a burden. For these respondents the perceived benefits of incorporating tended to be viewing it simply as something that 'had to be done' in order to be seen as credible, to get contracts, or even just to proceed as a business concern.

Encouraging growth and reducing costs for businesses is an HMRC priority and the Department is committed to achieving this as outlined in its 2012-15 Business Plan. For business customers this means finding tax easier to understand, so they are more confident in knowing what to do, when and how to do it, thus enabling them to

deal with the Department more accurately and with greater certainty. Thus, in addition to predicting the number of incorporations and shaping policy development, HMRC also wanted to better understand newly incorporated businesses, in particular to be able to respond to concerns that newly incorporated micro businesses are subject to administrative burdens designed for more complex organisations. They also wanted to understand how disincorporation was helping businesses that found incorporation an inappropriate legal form.

As outlined above, this research gives us insight into the sort of businesses that incorporate, as well as what those who incorporate were doing beforehand.

This research also gives us insight into matters around the complexity of being incorporated and perceptions of administrative burden. Both the quantitative and qualitative phases revealed that the administrative burden of incorporation is a definitive negative for some companies, and indeed appears to be the *only* drawback of incorporating for many. Nevertheless it also appears to be the case that even among those wary of their new administrative responsibilities, the positives from incorporation tend to outweigh the negatives. Even among those who agreed that the administrative burden of incorporation is too great, views on incorporation overall tended to be positive (though perhaps not quite as positive as those who did not feel that administration is too much of a burden), and there is no evidence of the companies that were more concerned about administrative burden having different disincorporation plans (or being more likely to have plans to disincorporate).

Beyond any increased administration, other potential drawbacks of incorporating, such as its complexity, do not emerge as significant issues. Some in the qualitative interviews indeed commented that the actual incorporation itself was a straightforward process from their perspective.

However there does appear to be a general lack of awareness and some confusion about disincorporation among the companies interviewed. The qualitative research in particular revealed confusion on the subject, with some confusing it with a more

general winding down of the business, and some not understanding why it would be incentivised through disincorporation relief.

Appendices

Appendix A: Questionnaire

2013 HMRC Reasons behind incorporation questionnaire MAINSTAGE FINAL

A: INTRODUCTION

READ OUT TO ALL

Hello, my name is and I'm calling from Ipsos MORI an independent market research company. You have been selected to participate in a survey we are conducting on behalf of Her Majesty's Revenue and Customs (HMRC) among people who have incorporated companies in the past few years.

By participating in this research you will help HMRC more accurately predict the number of incorporations and help target policies to aid company growth.

Can I email or fax you some more information about the survey?

IF NECESSARY: By incorporating I mean forming or registering a business as a legally-recognised company with Companies House.

IF NECESSARY: Could I speak to the person at the business who was responsible for incorporating the company in [INSERT MONTH AND YEAR OF INCORPORATION FROM SAMPLE]?

A1 **Firstly, can I just check that this company [INSERT COMPANY NAME FROM SAMPLE], incorporated in [INSERT MONTH AND YEAR OF INCORPORATION FROM SAMPLE]?**
SINGLE CODE ONLY

Yes	1	CONTINUE TO A2
No – WRITE IN MONTH AND YEAR	2	IF 2009 OR EARLIER THANK AND CLOSE, OTHERWISE CONTINUE TO A2

A2 **And can I also check whether this company, at the point it incorporated in [INSERT MONTH AND YEAR OF INCORPORATION FROM SAMPLE OR FROM A1 CODE 2] had fewer than 10 employees, or whether it had 10 employees or more?** SINGLE CODE ONLY

Had fewer than 10 employees	1	CONTINUE TO A3
Had 10 employees or more	2	IF 10 OR MORE THANK AND CLOSE

A3 **At the time of incorporating how many directors did this company have, including yourself?**

WRITE IN NUMBER	1	IF 6 OR MORE THANK AND CLOSE. OTHERWISE CONTINUE TO SECTION B
-----------------	---	---

Don't know	2	THANK AND CLOSE
Refused	3	THANK AND CLOSE

READ OUT TO ALL

The survey will take about 20 minutes of your time. Can I just reassure you that everything you say will be treated in the strictest confidence and your answers will only be reported at the aggregate level with other companies taking part in this survey.

INTERVIEWER ADD IF NECESSARY: EVEN IF YOUR ORGANISATION HAS SINCE CEASED TRADING OR BEEN LIQUIDATED WE ARE STILL INTERESTED IN YOUR VIEWS ON INCORPORATING.

Please note that it will be [INSERT COMPANY NAME FROM SAMPLE] that we will mainly be talking about during this interview.

B: BUSINESS CHARACTERISTICS

READ OUT TO ALL

We are keen to speak to a mix of different types of companies so can I ask you a few questions about the organisation.

ASK ALL

B1 First of all, can I just check whether [INSERT COMPANY NAME FROM SAMPLE] is still owned by you and is still trading? SINGLE CODE ONLY

Yes – still owned by respondent and still trading	1
No – been sold/passed on	2
No – has ceased trading, closed or been liquidated	3

ASK IF CODE 2 OR 3 AT B1

B2 Roughly, how long after incorporating the company in [INSERT MONTH AND YEAR FROM SAMPLE OR FROM A1 CODE 2] did you [IF SOLD/PASSED ON (CODE 2 at B1: sell or pass on IF CEASED TRADING (CODE 3 AT B1): close or liquidate] the company? If the company had been incorporated for less than a year, please say the number of months. SINGLE CODE ONLY

INTERVIEWER NOTE: PLEASE WRITE IN CLEARLY WHETHER IT IS MONTHS OR YEARS THAT THE ANSWER REFERS TO. YOU CAN ALSO ANSWER AS A COMBINATION OF MONTHS AND YEARS

WRITE IN NUMBER OF MONTHS OR YEARS	1
Don't know	2
Refused	3

ASK ALL, ASIDE FROM THOSE WITH NO SAMPLE INFORMATION IN THE SECTOR COLUMN, THEY SKIP STRAIGHT TO B4

B3 Can I just check whether [INSERT INDUSTRY SECTOR FROM SAMPLE] broadly describes the activity of this company [IF SOLD/PASSED ON (CODE 2 AT B1) when you owned it; IF CEASED TRADING (CODE 3 AT B1) when it was operating]? SINGLE CODE ONLY

Yes	1
No	2

ASK ALL WHO SAID NO (CODE 2) AT B3 OR THOSE WITH NO SAMPLE INFORMATION IN THE SECTOR COLUMN

B4 [IF STILL EXISTS **What is the main activity of this company?** IF SOLD/PASSED ON/CEASED TRADING (CODE 2 OR 3 AT B1) **What was the main activity of this company?**] SINGLE CODE ONLY. PROMPT FROM LIST IF NECESSARY

Agriculture, Forestry and Fishing	1
Mining and Quarrying	2
Manufacturing	3
Electricity, Gas, Steam and Air Conditioning Supply	4
Water Supply, Sewerage and Waste Management	5
Construction	6
Wholesale and Retail Trade	7
Transport and storage	8
Accommodation and Food Service Sector	9
Information and Communications	10
Financial and Insurance Activities	11
Real Estate Activities	12
Professional, Scientific and Technical Activities	13
Administrative and Support Service Activities	14
Public Administration and Defence	15
Education	16
Human Health and Social Work Activities	17
Arts, Entertainment and Recreation	18
Other Service Activities	19
Activities of Households as Employers	20
Extraterritorial Organisations	21
Other (PLEASE SPECIFY)	22
Don't know	23
Refused	24

ASK IF TWO OR MORE DIRECTORS AT A3

You said earlier that you had [INSERT NUMBER OF DIRECTORS FROM A3] directors at the time of incorporating, including yourself.

B5 **At the time of incorporating how many of these directors, if any, were family? By this I mean directors who are involved in the day-to-day running of the business who are members of your family. Please do not include yourself in this total. IF NONE WRITE IN ZERO. MUST NOT EXCEED (A3 MINUS 1)**

WRITE IN NUMBER	1
Don't know	2
Refused	3

B6a **At the time of incorporating how many of your directors, if any, were shareholders? Please do not include yourself in this total. IF NECESSARY: Note it is the number of shareholders among all of the directors at the time of incorporating that we are interested in, not just family members. IF NONE WRITE IN ZERO. MUST NOT EXCEED (A3 minus 1)**

WRITE IN NUMBER	1
Don't know	2

Refused

3

ASK IF ONE OR MORE DIRECTOR SHAREHOLDER(S) AT B6a

B6b **How many, if any, of the director shareholders were family? Please do not include yourself in this total. IF NONE WRITE IN ZERO. MUST NOT EXCEED B6a.**

WRITE IN NUMBER	1
Don't know	2
Refused	3

ASK ALL

B7

How many directors [IF STILL OPERATING (CODE 1 AT B1) does; IF SOLD/PASSED ON/CEASED TRADING (CODE 2 OR 3 AT B1) did] this company [IF STILL OPERATING (CODE 1 AT B1) currently have, including yourself [IF SOLD/PASSED ON (CODE 2 AT B1: **when you sold it or passed it on; IF CEASED TRADING (CODE 2 3 AT B1) **when it ceased trading**]?**

WRITE IN NUMBER	1
Don't know	2
Refused	3

ASK IF TWO OR MORE DIRECTORS AT B7 AND IF STILL OWNED AND OPERATED BY RESPONDENT (CODE 1 AT B1)

B8 **And currently, how many of the company's directors, if any, are family? By this I mean directors who are involved in the day-to-day running of the business who are members of your family. Please do not include yourself in this total. IF NONE WRITE IN ZERO. MUST NOT EXCEED (B7 MINUS 1).**

WRITE IN NUMBER	1
Don't know	2
Refused	3

ASK IF TWO OR MORE DIRECTORS AT B7 AND IF STILL OWNED AND OPERATED BY RESPONDENT (CODE 1 AT B1)

B9a **And currently, how many of the company's directors, if any, are shareholders? Please do not include yourself in this total. IF NECESSARY: Note it is the number of shareholders among all of the directors currently that we are interested in, not just family members. IF NONE WRITE IN ZERO. MUST NOT EXCEED (B7 MINUS 1).**

WRITE IN NUMBER	1
Don't know	2
Refused	3

ASK IF ONE OR MORE DIRECTOR SHAREHOLDER(S) AT B9a

B9b **How many, if any, of the director shareholders are family? Please do not include yourself in this total. IF NONE WRITE IN ZERO. MUST NOT EXCEED B9a.**

WRITE IN NUMBER	1
Don't know	2
Refused	3

ASK ALL

B10 [IF ONE OR MORE AT B9a: **Excluding director shareholders**] **How many shareholders** [IF STILL OPERATING (CODE 1 AT B1) **does**; IF SOLD/PASSED ON/CEASED TRADING (CODE 2 OR 3 AT B1) **did**] **this company** [IF STILL OPERATING (CODE 1 AT B1) **currently**] **have, including yourself** [IF SOLD/PASSED ON (CODE 2 AT B1: **when you sold it or passed it on**; IF CEASED TRADING (CODE 2 3 AT B1) **when it ceased trading**]?

WRITE IN NUMBER	1
Don't know	2
Refused	3

B11 **Prior to this business being incorporated, did you own any other limited companies?**
READ OUT: By own I mean having a controlling interest in the company. SINGLE CODE ONLY

Yes	1
No	2
Don't know	3
Refused	4

B12 **Thinking back to what you were doing immediately prior to [INSERT COMPANY NAME FROM SAMPLE] being incorporated, were you one or more of the following...?**
READ OUT (APART FROM DON'T KNOW AND REFUSED)

MULTICODE OK (N.B. IT'S POSSIBLE TO BE BOTH SELF-EMPLOYED AND EMPLOYED SIMULTANEOUSLY, I.E. IF HAVE A JOB BUT ALSO ARE STARTING OWN BUSINESS ON THE SIDE ETC)

IF NOT WORKING CODE 5 AND READ OUT CODES 6 TO 11 AND CODE AS APPROPRIATE

Self-employed	1
Employed and working 30 hours or more a week (excluding as a director) (Full-time)	2
Employed and working 8-29 hours a week (excluding as a director) (Part-time)	3
Director of a company	4
Not working	5
<i>ONLY READ OUT CODES BELOW IF NOT WORKING:</i>	
Unemployed (registered)	6
Unemployed (not registered but looking for work)	7
Retired	8
Student	9
Looking after home	10
Other (PLEASE SPECIFY)	11
Don't know	12
Refused	13

ASK THOSE WORKING (CODE 1 TO 3) AT B12

B13 **In the 12 months prior to this business being incorporated, how much did you personally earn approximately? SINGLE CODE ONLY**

INTERVIEWER NOTE: IF THE RESPONDENT IS RELUCTANT TO DISCLOSE THIS INFORMATION PLEASE REMIND THEM OF THE CONFIDENTIALITY OF THIS RESEARCH

INTERVIEWER NOTE: PLEASE ENTER AN ANNUAL TOTAL, NOT A MONTHLY FIGURE

WRITE IN EARNINGS (£)	1
Don't know	2
Refused	3

ASK IF DON'T KNOW OR REFUSED AT B13

B14 **Would you say per annum it was approximately? READ OUT BANDS. SINGLE CODE ONLY**

Less than £10,000	1
£10,000 - £14,999	2
£15,000 - £24,999	3
£25,000 - £39,999	4
£40,000 - £49,999	5
£50,000 - £99,999	6
£100,000 - £149,999	7
£150,000 - £249,999	8
£250,000 - £349,999	9
£350,000 or more	10
Don't know	11
Refused	12

ASK THOSE SELF-EMPLOYED (CODE 1) AT B12

B15 **And were you a sole trader or in a partnership immediately prior to the business being incorporated? IF NECESSARY: By this I mean running a business as a self-employed individual or in a partnership.**

IF YES: **Is this the same business as that which was incorporated as [INSERT COMPANY NAME FROM SAMPLE], or was it another business? IF NECESSARY: By the same I mean the same line of activities that eventually became the incorporated company [INSERT COMPANY NAME FROM SAMPLE]. SINGLE CODE ONLY**

Yes – was a sole trader and it was the same business	1
Yes – was a sole trader but it was a different business	2
Yes – was in a partnership and it was the same business	3
Yes – was in a partnership but it was a different business	4
No – was not a sole trader/in a partnership	5
Don't know	6
Refused	7

ASK IF WAS A SOLE TRADER/IN A PARTNERSHIP AND IT WAS THE SAME BUSINESS PRIOR TO INCORPORATION (CODE 1 OR 3) AT B15

B16 **Roughly, how long had the business been operating for at the time of incorporation? If the business had been operating less than a year, please say the number of months.**
READ OUT. SINGLE CODE ONLY

INTERVIEWER NOTE: YOU CAN ALSO ANSWER AS A COMBINATION OF MONTHS AND YEARS.

WRITE IN NUMBER OF MONTHS	1
WRITE IN NUMBER OF YEARS	2
WRITE IN COMBINATION OF MONTHS AND YEARS	3
Don't know	4
Refused	5

ASK IF WAS A SOLE TRADER/IN A PARTNERSHIP AND IT WAS THE SAME BUSINESS PRIOR TO INCORPORATION (CODE 1 OR 3) AT B15

B17 **At the point prior to this business being incorporated, how many people – not including yourself – worked for this business? Please do not include any unpaid workers or freelancers.** SINGLE CODE ONLY

WRITE IN NUMBER OF EMPLOYEES	1
Don't know	2
Refused	3

ASK THOSE WHOSE ACTIVITY WAS DIFFERENT (CODE 2 OR 4) AT B15

B18 **What was the main activity of this business? SINGLE CODE ONLY**

Agriculture, Forestry and Fishing	1
Mining and Quarrying	2
Manufacturing	3
Electricity, Gas, Steam and Air Conditioning Supply	4
Water Supply, Sewerage and Waste Management	5
Construction	6
Wholesale and Retail Trade	7
Transport and storage	8
Accommodation and Food Service Sector	9
Information and Communications	10
Financial and Insurance Activities	11
Real Estate Activities	12
Professional, Scientific and Technical Activities	13
Administrative and Support Service Activities	14
Public Administration and Defence	15
Education	16
Human Health and Social Work Activities	17
Arts, Entertainment and Recreation	18
Other Service Activities	19
Activities of Households as Employers	20
Extraterritorial Organisations	21
Other (PLEASE SPECIFY)	22
Don't know	23
Refused	24

ASK IF EMPLOYED PRIOR TO INCORPORATION (CODE 2 OR 3) AT B12

B19 **And thinking about the organisation you worked at prior to incorporation, did your employer become a client of the newly incorporated company {INSERT COMPANY NAME}? SINGLE CODE ONLY**

Yes	1
No	2
Don't know	3
Refused	4

ASK IF DIRECTOR PRIOR TO INCORPORATION (CODE 4) AT B12

B19A **And thinking about the organisation at which you were a director prior to incorporation, did that company become a client of the newly incorporated company [INSERT COMPANY NAME]? SINGLE CODE ONLY**

Yes	1
No	2
Don't know	3
Refused	4

ASK IF WAS A SOLE TRADER/IN A PARTNERSHIP AND IT WAS THE SAME BUSINESS PRIOR TO INCORPORATION (CODE 1 OR 3) AT B15 AND WAS OPERATING 2+ YEARS AT THE TIME OF INCORPORATION AT B16

B20 **Thinking about the turnover for your business for the financial year prior to incorporation (2009/10), which of the following bands would this fall into roughly?**
PROMPT FROM BANDS. SINGLE CODE ONLY

Less than £10,000	1
£10,000 - £14,999	2
£15,000 - £24,999	3
£25,000 - £39,999	4
£40,000 - £49,999	5
£50,000 - £74,999	6
£75,000 - £99,999	7
£100,000 - £249,999	8
£250,000 - £499,999	9
£500,000 - £999,999	10
£1m - £1,999,999	11
£2m+	12
Don't know	13
Refused	14

ASK IF WAS A SOLE TRADER/IN A PARTNERSHIP AND IT WAS THE SAME BUSINESS PRIOR TO INCORPORATION (CODE 1 OR 3) AT B15 AND WAS OPERATING 1+ YEARS AT THE TIME OF INCORPORATION AT B16

B21 **In the 12 months prior to incorporation, did the business's turnover. . . ?** READ OUT A TO E. ALTERNATE ORDER. SINGLE CODE ONLY

A	Grow by 20% or more	1
B	Grow but by less than 20%	2
C	Stay the same	3
D	Decline but by less than 20%	4
E	Decline by 20% or more	5
	Don't know	6
	Refused	7

ASK IF WAS A SOLE TRADER/IN A PARTNERSHIP AND IT WAS THE SAME BUSINESS PRIOR TO INCORPORATION (CODE 1 OR 3) AT B15 AND WAS OPERATING 1+ YEARS AT THE TIME OF INCORPORATION AT B16

B22 **And did this business make a profit or loss during the last financial year (2009/10) prior to [INSERT COMPANY NAME FROM SAMPLE] being incorporated?** SINGLE CODE ONLY

	Profit	1
	Loss	2
	Broke even	3
	Don't know	4
	Refused	5

ASK ALL

B23 **Thinking now about [INSERT COMPANY NAME FROM SAMPLE] in the first full financial year after incorporation (2011/12), what was the turnover of the company?** READ OUT. SINGLE CODE

IF SAY WAS NOT IN BUSINESS FOR FULL YEAR ASK: **What was your turnover during the time you operated?**

Less than £10,000	1
£10,000 - £14,999	2
£15,000 - £24,999	3
£25,000 - £39,999	4
£40,000 - £49,999	5
£50,000 - £74,999	6
£75,000 - £99,999	7
£100,000 - £249,999	8
£250,000 - £499,999	9
£500,000 - £999,999	10
£1m - £1,999,999	11
£2m+	12
Don't know	13
Refused	14

IF SAY WAS NOT IN BUSINESS FOR FULL YEAR AT B23

B24 **Roughly, for how many months of the first financial year after incorporation (2011/12) did the company operate?** SINGLE CODE ONLY

INTERVIEWER NOTE: IF THE RESPONDENT IS UNSURE PLEASE ASK FOR AN ESTIMATE.

WRITE IN NUMBER OF MONTHS	1
Don't know	2
Refused	3

ASK IF COMPANY STILL EXISTS/OWNED BY RESPONDENT (CODE 1 AT B1)

B25 **And now thinking about the turnover for your company for the last financial year (2012/13), which of the following bands would this fall into?** READ OUT. SINGLE CODE

Less than £10,000	1
£10,000 - £14,999	2
£15,000 - £24,999	3
£25,000 - £39,999	4
£40,000 - £49,999	5
£50,000 - £74,999	6
£75,000 - £99,999	7
£100,000 - £249,999	8
£250,000 - £499,999	9
£500,000 - £999,999	10
£1m - £1.9m	11
£2m - £4.9m	12
£5m+	13
Don't know	14
Refused	15

ASK IF COMPANY STILL EXISTS/OWNED BY RESPONDENT (CODE 1 AT B1)

B26 **Can I just check, did you make a profit or loss during the 2012/13 financial period?**
SINGLE CODE ONLY

Profit	1
Loss	2
Broke even	3
Don't know	4
Refused	5

ASK THOSE WHO MADE A PROFIT (CODE 1) B26

B27 **And how much profit did you make during this the 2012/13 financial period?** READ
OUT. SINGLE CODE ONLY

INTERVIEWER NOTE: IF THE RESPONDENT IS UNSURE PLEASE ASK FOR AN
ESTIMATE.

Less than £10,000	1
£10,000 - £14,999	2
£15,000 - £24,999	3
£25,000 - £39,999	4
£40,000 - £49,999	5
£50,000 - £74,999	6
£75,000 - £99,999	7
£100,000 - £249,999	8
£250,000 - £499,999	9
£500,000 - £999,999	10
£1m - £1,999,999	11
£2m+	12
Don't know	13
Refused	14

ASK THOSE WHO MADE PROFIT/LOSS (CODE 1 OR 2) AT B26

B28 **Compared to the 2011/12 financial year, has this [IF CODE 1 AT B26: profit, IF CODE 2
AT B26: loss] increased, decreased or remained unchanged?** SINGLE CODE ONLY

Increased	1
Remained unchanged	2
Decreased	3
Don't know	4
Refused	5

ASK THOSE WHO MADE PROFIT (CODE 1) AT B26 AND THIS PROFIT INCREASED SINCE THE 2011/12 FINANCIAL YEAR (CODE 1) AT B28

B29 **How have you achieved this growth in profit since the 2011/12 financial year. Was it by...?**
 READ OUT A TO J. ALTERNATE ORDER A TO I. MULTICODE OK

A	Moving into new markets in the UK	1
B	Moving into new markets overseas	2
C	Introducing more products or services	3
D	Increasing sales of existing products or services	4
E	Taking on more employees	5
F	Investing in innovation	6
G	Acquiring or merging with another business	7
H	Investing in new capital or equipment	8
I	Working for different clients	9
J	Or something else (PLEASE SPECIFY)	10
	Don't know	10
	Refused	11

ASK IF COMPANY STILL EXISTS/OWNED BY RESPONDENT (CODE 1 AT B1)

B30 **Which forms of finance does the company use to fund its activities such as normal day-to-day company operations or more specific projects or investments? DO NOT READ OUT. MULTICODE OK**

Profits/internal funds like cash/retained earnings	1
Debt/ loans/mortgages (secured and unsecured, not from family/friends)	2
Overdraft	3
Loans/equity from friends or family	4
Credit card	5
Trade credit	6
Leasing or hire purchase	7
Other (PLEASE SPECIFY)	8
Don't know	9
Refused	10

ASK IF COMPANY STILL EXISTS/OWNED BY RESPONDENT (CODE 1 AT B1)

B31 **How many people – not including yourself – are currently employed by the company? I.e. On the company payroll. Please do not include any unpaid workers or freelancers. SINGLE CODE ONLY**

INTERVIEWER NOTE: PLEASE INCLUDE ALL INDIVIDUALS ON THE PAYROLL INCLUDING DIRECTORS BUT EXCLUDING THE RESPONDENT

WRITE IN NUMBER OF EMPLOYEES	1
Don't know	2
Refused	3

ASK ALL WHO SAID DON'T KNOW OR REFUSED AT B31

B32 **Which of the following bands best describes how many people, not including yourself, are currently employed by the company? Please do not include any unpaid workers or freelancers. READ OUT BANDS. SINGLE CODE**

Zero/nano business	1
1-4	2
5-9	3
10 or more	4
Don't know	5
Refused	6

ASK ALL

B33 **Thinking again about [INSERT COMPANY NAME FROM SAMPLE], which of the following forms part of [IF CODE 2 OR 3 AT B1: **formed part of**] the [IF ONE DIRECTOR OR DK/REFUSED AT A3: **director's**; IF MORE THAN ONE DIRECTOR AT A3: **directors'**] [IF CODE 1 AT B1: **remuneration strategy since incorporation**] [IF CODE 2 AT B1: **remuneration strategy when you owned the company**] [IF CODE 3 AT B1: **remuneration strategy when the company was operating**]? READ OUT A TO D. ALTERNATE ORDER A TO C. MULTICODE OK**

A	Salary	1
B	Dividends	2
C	Earning/receiving additional shares	3
D	Or something else (WRITE IN)	4
E	The business has/did not make any money	5
	Don't know	6
	Refused	7

ASK IF COMPANY STILL EXISTS/OWNED BY RESPONDENT (CODE 1 AT B1)

B34 **Approximately what was your personal remuneration from the company in the last financial year (2012/13)? This would include any salary, dividends and any payout from shares during the year. SINGLE CODE ONLY**

INTERVIEWER NOTE: IF THE RESPONDENT IS RELUCTANT TO DISCLOSE THIS INFORMATION PLEASE REMIND THEM OF THE CONFIDENTIALITY OF THIS RESEARCH

WRITE IN EARNINGS (£)	1
Don't know	2
Refused	3

ASK IF DON'T KNOW OR REFUSED AT B34

B35 **Would you say per annum it is approximately?** READ OUT BANDS. SINGLE CODE ONLY

Less than £10,000	1
£10,000 - £14,999	2
£15,000 - £24,999	3
£25,000 - £39,999	4
£40,000 - £49,999	5
£50,000 - £99,999	6
£100,000 - £149,999	7
£150,000 - £249,999	8
£250,000 - £349,999	9
£350,000 or more	10
Don't know	11
Refused	12

ASK IF COMPANY STILL EXISTS/OWNED BY RESPONDENT (CODE 1 AT B1)

B36 **In the last financial year, roughly what proportion of your remuneration, if any, was drawn from dividends?** SINGLE CODE ONLY

WRITE IN PERCENTAGE (%)	1
Don't know	2
Refused	3

ASK IF DON'T KNOW OR REFUSED AT B36

B37 **Would you say it is?** READ OUT BANDS. SINGLE CODE ONLY

Less than 20%	1
20%-39%	2
40%-59%	3
60%-79%	4
80%-99%	5
100%/all of it	6
Don't know	7
Refused	8

ASK IF COMPANY STILL EXISTS/OWNED BY RESPONDENT (CODE 1 AT B1)

B38 **And which of the following do you feel describes your expectations for the company over the next 12 months?** READ OUT A TO G. ALTERNATE ORDER A TO E. CODES F AND G ALWAYS TO COME AFTERWARDS. MULTICODE OK IF COMBINED WITH F OR G

A	Grow by 20% or more	1
B	Grow by less than 20%	2
C	Stay the same	3
D	Decline but by less than 20%	4
E	Decline by 20% or more	5
F	Sell it/pass it on	6
G	Close the business	7
	Don't know	8
	Refused	9

ASK ALL EXPECTING TO GROW (CODE 1 OR 2) AT B38

B39 **How are you planning to achieve this growth. Is it by . . .?** READ OUT A TO J. ALTERNATE ORDER A TO I . MULTICODE OK

A	Moving into new markets in the UK	1
B	Moving into new markets overseas	2
C	Introducing more products or services	3
D	Increasing sales of existing products or services	4
E	Taking on more employees	5
F	Investing in innovation	6
G	Acquiring or merging with another business	7
H	Investing in new capital or equipment	9
I	Working for different clients	10
J	Or something else (PLEASE SPECIFY)	11
	Don't know	12
	Refused	13

ASK IF COMPANY STILL EXISTS/OWNED BY RESPONDENT (CODE 1 AT B1)

B40 [IF CODED 5 AT B39: **You've indicated that taking on employees is part of your growth plans.**] [IF NOT CODED 5 AT B39: **Excluding replacing those that leave, do you plan to take on any additional employees in the next 2 years? Please do not include any unpaid workers or freelancers.**] IF YES ABOVE OR CODED 5 AT B39: **How many additional employees do you expect to take on in the next 2 years? IF NECESSARY: Note that I mean taking on additional numbers of employees, not replacing employees who leave. SINGLE CODE ONLY**

Yes – WRITE IN NUMBER OF EMPLOYEES	1
Yes – But don't know/refused number	2
No	3
Don't know	4
Refused	5

C: REASONS FOR INCORPORATING

READ OUT TO ALL

I am now going to ask you about the reasons behind your decision to incorporate [INSERT COMPANY NAME] in [INSERT MONTH AND YEAR FROM SAMPLE OR FROM A1 CODE 2].

C1 Firstly, can you tell me who initially had the idea for you to incorporate your business? DO NOT READ OUT. SINGLE CODE ONLY

The respondent	1
Family member	2
Friend	3
Business partner	4
Another business owner	5
Colleague	6
Accountant	7
Solicitor	8
Bank manager	9
Industry Body	10
Client / potential client	11
Employment Agency	12
Other (PLEASE SPECIFY)	13
Don't know/can't remember	14
Refused	15

C2 Thinking back to [INSERT MONTH AND YEAR FROM SAMPLE OR FROM A1 CODE 2], what were the main reasons for deciding to incorporate? PROBE FULLY What other reasons? MULTICODE OK. INTERVIEWER NOTE: PLEASE WRITE AS MUCH DETAIL AS POSSIBLE FOR ANSWERS ALLOCATED TO 'OTHER'.

Protection through limited liability	1
Tax and National Insurance savings	2
Improved reputation/credibility for company	3
Being able to meet the required criteria to be a supplier on certain contracts	4
Easier access to finance for establishing or expanding the business	5
Making it easier to sell or transfer ownership of the business	6
Securing the company name and stopping others using it	7
To be able to issue shares	8
Giving the company a formal structure	9
To help my business grow	10
It was a new company and incorporated from the start	11
To give me confidence	12
To access a cheaper business bank account	13
Other (WRITE IN)	14
Don't know	15

Refused	16
---------	----

C3 **Before you incorporated, what drawbacks, if any, did you think there might be to incorporating? PROBE FULLY What others?**

WRITE IN	1
None / No drawbacks	2
Don't know	3
Refused	4

C4 **And now can you tell me to what extent you agree or disagree that each of the following factors were important considerations in your decision to incorporate? READ OUT A TO K. ROTATE ORDER. SINGLE CODE ONLY**

	Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree	Don't know	Refuse
A Protection through limited liability	1	2	3	4	5	6	7
B Tax and National Insurance savings	1	2	3	4	5	6	7
C Improved reputation/credibility for company	1	2	3	4	5	6	7
D Being able to meet the required criteria to be a supplier on certain contracts	1	2	3	4	5	6	7
E Easier access to finance for establishing or expanding the business	1	2	3	4	5	6	7
F Making it easier to sell or transfer ownership of the business	1	2	3	4	5	6	7
G Potential administrative burden	1	2	3	4	5	6	7
I Securing the company name and stopping others using it	1	2	3	4	5	6	7
J To be able to issue shares	1	2	3	4	5	6	7
K Giving the company a formal structure	1	2	3	4	5	6	7

READ OUT TO ALL

I am now going to ask you about your knowledge of the incorporation process.

ASK ALL

C6 **Prior to incorporating, how much, if anything, did you know about incorporation? READ OUT A TO E. REVERSE ORDER. SINGLE CODE ONLY**

A	A great deal	1
B	A fair amount	2
C	Just a little	3
D	Heard of it but knew nothing about	4
E	Never heard of it	5
	Don't know	6

C7 **Did you use any help or advice in seeking to incorporate? IF YES: Was this paid or unpaid advice, or both? MULTICODE OK 1 AND 2**

INTERVIEWER NOTE: PAID ADVICE CAN INCLUDE ADVICE THAT WAS PAID FOR BY SOMEONE OTHER THAN THE RESPONDENT

Yes - paid advice (e.g. accountant, solicitor, bank manager)	1
Yes - unpaid advice (e.g. family, friend, peer)	2
No	3
Don't know	4
Refused	5

ASK THOSE WHO RECEIVED ADVICE (CODE 1 OR 2) AT C7

C8 **Thinking about the advice you received prior to incorporating, which of the following pieces of advice, if any, were you told? IF YES FOR EACH AND CODED 1 AND 2 AT C7 (OTHERWISE CODE AS PER C7 ANSWER): Was this paid or unpaid advice? READ OUT A TO I. RANDOMISE ORDER. MULTICODE OK AT 1 AND 2 ONLY FOR EACH**

	Yes – paid advice	Yes – unpaid advice	No advice	Don't know	Refused
A It would reduce your personal liability	1	2	3	4	5
B It would lower your tax and National Insurance liabilities	1	2	3	4	5
C It would improve the reputation of your business	1	2	3	4	5
D It would help you to meet the required criteria to be a supplier on certain contracts	1	2	3	4	5
E It would make it easier to access business finance	1	2	3	4	5
F It would make it easier to sell or transfer ownership of the business in future	1	2	3	4	5
G You would have legal obligations as a company director	1	2	3	4	5
H It would secure the company name and stop others using it	1	2	3	4	5
I It would allow the company to issue shares	1	2	3	4	5

ASK ALL

C9 I am now going to read you a series of statements and I would like you to say whether, as far as you know, each is true or false? Please say if you do not know. READ OUT B, D AND H. RANDOMISE ORDER. SINGLE CODE ONLY FOR EACH

	True	False	Don't know	Refused
B A new single rate of corporation tax of 20% will be introduced in 2015	1	2	3	4
D You need to incorporate if you want to offer shares in your business	1	2	3	4
H The point at which an individual becomes liable for National Insurance Contributions is £149 per week (or £7,755 per year) in income	1	2	3	4

READ OUT TO ALL

Now I'm going to ask about your experiences in the time that has passed since you incorporated in [INSERT MONTH AND YEAR FROM SAMPLE OR FROM A1 CODE 2] and about the impact that incorporation has had on your business.

ASK ALL

C10 [IF STILL OPERATING (CODE 1 AT B1): What have been the main benefits of incorporation? IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 at B1): What were the main benefits of incorporation?] MULTICODE OK.

DO NOT READ OUT. PROBE FULLY. What other benefits?

Protection through limited liability	1
Tax and National Insurance savings	2
Improved reputation/credibility for company	3
Being able to meet the required criteria to be a supplier on certain contracts	4
Easier access to finance for establishing or expanding the business	5
Easier to sell or transfer ownership of the business	6
Securing the company name and stopping others using it	7
To be able to issue shares	8
Giving the company a formal structure	9
Helped my business grow	10
Increased my confidence	11
Able to access a cheaper business bank account	12
Other (please specify)	13
Don't know	14
Refused	15

C11 **Thinking about your business, to what extent do you agree or disagree with each of the following statements? READ OUT A TO G . ROTATE ORDER. SINGLE CODE ONLY**

	Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree	Don't know	Refuse
A As a consequence of being incorporated, contractors [IF STILL OPERATING (CODE 1 AT B1): are more likely to do business with me IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 AT B1): were more likely to do business with me]	1	2	3	4	5	6	7
B ASK IF COMPANY STILL EXISTS/IS OWNED BY RESPONDENT (CODE 1 B1): Being incorporated makes it easier to obtain finance for expanding the business	1	2	3	4	5	6	7
C ASK IF HAVE SOLD ON COMPANY (CODE 2 AT B1): Being incorporated made the business easier to sell	1	2	3	4	5	6	7
D As a consequence of incorporation, I was able to decrease my tax and National Insurance liabilities	1	2	3	4	5	6	7
E Being incorporated [IF STILL OPERATING (CODE 1 AT B1): is IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 AT B1): was] good for my business' image	1	2	3	4	5	6	7
F ASK IF COMPANY STILL EXISTS/IS OWNED BY RESPONDENT (CODE 1 B1): Being incorporated has helped my company during the economic downturn	1	2	3	4	5	6	7
G ASK IF CODE 2 OR 3 AT B1: Being incorporated helped my company to grow [IF CODE 2 AT B1: before it was sold or passed on, IF CODE 3 OR 3 AT B1: when it was trading]	1	2	3	4	5	6	7

ASK ALL

C12 **[IF STILL OPERATING (CODE 1 AT B1): In the time since you incorporated, have you been awarded] [IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 AT B1): When you owned the company were you awarded] any new contracts for which being incorporated was part of the criteria? SINGLE CODE ONLY**

Yes	1
No	2
Don't know	3

Refused	4
---------	---

ASK IF AWARDED CONTRACTS (CODE 1) AT C12

C13 **Approximately how many contracts** [IF STILL OPERATING (CODE 1 AT B1): **have you been awarded** IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 AT B1): **were you awarded**] **for which being incorporated was part of the criteria?**
SINGLE CODE ONLY

WRITE IN NUMBER	1
Don't know	2
Refused	3

ASK ALL WHO GIVE A FIGURE RESPONSE OR DK AT C13

C14 **Approximately what was the overall value of** [IF ONE CONTRACT AT C13 **this new contract**] [IF TWO OR MORE CONTRACTS OR DON'T KNOW NUMBER AT C13 **these new contracts**] **? Was it...? ADD IF NECESSARY IF MORE THAN ONE CONTRACT: If there are several contracts please give an overall figure.** READ OUT. SINGLE CODE ONLY

INTERVIEWER NOTE: IF THE RESPONDENT IS RELUCTANT TO DISCLOSE THIS INFORMATION PLEASE REMIND THEM OF THE CONFIDENTIALITY OF THIS RESEARCH

	Less than £5,000	1
A	£5,000 to £9,999	2
B	£10,000 to £14,999	3
	£15,000 to £29,999	4
C	£30,000 to £49,999	5
D	£50,000 to £74,999	6
	£75,000 to £99,999	7
E	£100,000 to £249,999	8
	£250,000 to £499,999	9
F	£500,000 to £1 million	10
G	More than £1 million	11
	Don't know	12
	Refused	13

ASK IF CODE 1 AT C12 AND COMPANY STILL EXISTS/IS OWNED BY RESPONDENT (CODE 1 AT B1)

C15 **And are any of these contracts still active?** SINGLE CODE ONLY

Yes	1
No	2
Don't know	3
Refused	4

ASK ALL

C17 As you will know, businesses that have incorporated must report their accounts annually, complete a corporation tax return and run a pay-as-you-earn salary scheme. They also need to inform Companies House of any changes, such as appointments and resignations, within 14 days.

Do you think that the overall costs of these activities, including any external services you use to undertake them, are higher, lower or about the same as you expected prior to incorporating? SINGLE CODE ONLY

Higher	1
Lower	2
About the same	3
Don't know	4
Refused	5

C18 Thinking about the costs and benefits of incorporation, how much money do you think a business like yours would need to save in the first year to make incorporation worthwhile?

WRITE IN	1
None/no financial incentive required	2
Don't know	3
Refused	4

C19 And to what extent do you agree or disagree with each of the following statements...? READ OUT B TO D. ROTATE ORDER. SINGLE CODE ONLY FOR EACH

	Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree	Don't know	Refused
B The administration [IF STILL OPERATING (CODE 1 AT B1): is IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 1 OR 3 AT B1): was] too much of a burden on my business	1	2	3	4	5	6	7
C Legal responsibilities on Directors [IF STILL OPERATING (CODE 1 AT B1): are IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 AT B1): were] easy to manage	1	2	3	4	5	6	7
D I would [IF STILL OPERATING (CODE 1 AT B1): prefer IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 AT B1): have preferred] it if information about my company (e.g. profits & assets) was not publicly available	1	2	3	4	5	6	7

C20 **Which of the following best describes who [IF STILL OPERATING (CODE 1 AT B1): completes IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 AT B1) completed]] most of the tax administration relating to your company?**
 READ OUT A TO D. ALTERNATE ORDER. SINGLE CODE ONLY

A	ALL administration [IF STILL OPERATING (CODE 1 AT B1): is IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 AT B1) was managed <u>within our company</u>	1
B	MOST administration [IF STILL OPERATING (CODE 1 AT B1): is IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 AT B1) was managed <u>within our company</u>	2
C	MOST administration [IF STILL OPERATING (CODE 1 AT B1): is IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 AT B1) was managed by <u>an external agent or advisor</u>	3
D	ALL administration [IF STILL OPERATING (CODE 1 AT B1): is IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 AT B1) was managed by <u>an external agent or advisor</u>	4
	Don't know	5
	Refused	6

ASK ALL WHO CODE 1 TO 4 AT C20 AND WAS A SOLE TRADER/IN A PARTNERSHIP AND IT WAS THE SAME BUSINESS PRIOR TO INCORPORATION (CODE 1 OR 3) AT B15
 C21 [IF STILL OPERATING (CODE 1 AT B1): **Has this changed since you incorporated?** IF NO LONGER OPERATING (CODE 2 OR 3 AT B1): **Did that change after incorporation?**]

IF YES: [IF STILL OPERATING (CODE 1 AT B1): **Is the change that more administration is managed by an external agent or advisor, or that more administration is managed within the company?** IF NO LONGER OPERATING (CODE 2 OR 3 AT B1): **Was the change that more administration was managed by an external agent or advisor, or that more administration was managed within the company?**] Note that by 'more' we mean as a proportion of the total administration. SINGLE CODE ONLY

Yes – more administration [IF STILL OPERATING (CODE 1 AT B1): is IF NO LONGER OPERATING (CODE 2 OR 3 AT B1): was] managed by an external agent or advisor; less within the company	1
Yes – more administration [IF STILL OPERATING (CODE 1 AT B1): is IF NO LONGER OPERATING (CODE 2 OR 3 AT B1): was] managed within the company; less by an external agent or advisor	2
No – it [IF STILL OPERATING (CODE 1 AT B1): hasn't changed IF NO LONGER OPERATING (CODE 2 OR 3 AT B1):] didn't change	3
Don't know	4
Refused	5

ASK ALL
 C22

If you knew of someone in a similar position to you before you incorporated, which of the following statements comes closest to how likely you would be to recommend incorporating their business? Would you... READ OUT A TO D. ALTERNATE ORDER. SINGLE CODE ONLY

A	Recommend without being asked	1
B	Recommend if asked	2
C	Not recommend if asked	3
D	Not recommend without being asked	4
	Don't know	5
	Refused	6

C23

As far as you are aware, how common if at all do you think it is for businesses generally in the UK to incorporate in order to reduce tax and National Insurance liabilities? Is it...? READ OUT A TO D. REVERSE ORDER. SINGLE CODE ONLY

A	Very common	1
B	Fairly common	2
C	Not very common	3
D	Not at all common	4
	Don't know	5
	Refused	6

READ OUT TO ALL

I am now going to ask you some questions about disincorporation, which refers to the passing of a company's assets and activities to its shareholders, who continue to carry on those activities of the business in an unincorporated form.

ASK IF COMPANY STILL EXISTS/OWNED BY RESPONDENT (CODE 1 AT B1)

C24 **Do you have any plans to disincorporate this company?** SINGLE CODE ONLY

Yes	1
No	2
Don't know	3
Refused	4

ASK IF NO LONGER OPERATING/UNDER THEIR OWNERSHIP (CODE 2 OR 3 AT B1)

C25 **Did you disincorporate** [INSERT COMPANY NAME FROM SAMPLE]? SINGLE CODE ONLY

Yes	1
No	2
Don't know	3
Refused	4

ASK ALL PLANNING TO DISINCORPORATE/HAVE DISINCORPORATED (CODE 1) AT C24 OR C25

C26 **Why** [IF CODE 1 AT C24: **are you planning to** IF CODE 1 AT C25: **did you**] **disincorporate?** DO NOT READ OUT. MULTICODE OK

Increased administrative and regulatory burden of being incorporated	1
Incorporation meant financial administration was more complicated	2
Business being wound down/declining	3
Incorporation didn't have the benefits I hoped for in terms of tax and National Insurance savings	4
Incorporation didn't have the benefits I hoped for in terms of growth/sales	5
Incorporation didn't have the benefits I hoped for in terms of business image	6
Incorporation was related to a specific project/contract/was always going to be short term	7
Remaining incorporated was no longer relevant to our business model	8
To achieve tax and national insurance savings	9
Other (PLEASE SPECIFY)	10
Don't know	11
Refused	12

ASK ALL PLANNING TO DISINCORPORATE (CODE 1) AT C24

C27 **And when do you plan to disincorporate the company? Is it...** READ OUT A TO C.
ALTERNATE ORDER. SINGLE CODE ONLY

A	Within 1 year	1
B	Between 1 and 2 years from now	2
C	More than 2 years from now	3
	Don't know	4
	Refused	5

ASK ALL

C28 **Can I just check, before taking part in this research were you aware of disincorporation tax relief?** SINGLE CODE ONLY

ADD IF NECESSARY:

Disincorporation relief was introduced in April 2013 and allows a company to transfer certain assets to shareholders who continue the business in an unincorporated form, without the company incurring a corporation tax charge on the disposal of that asset.

	Yes	1
	No	2
	Don't know	3
	Refused	4

C29 [IF CODE 1 AT C25: **Not including** [INSERT COMPANY NAME FROM SAMPLE],] **have you ever been a director of a company that has disincorporated?** SINGLE CODE ONLY

	Yes	1
	No	2
	Don't know	3
	Refused	4

D: ABOUT YOU

READ OUT TO ALL

Finally I would like to ask some questions to help classify your answers. Everything you say will be treated in confidence.

D1 **What is your age?**
RECORD EXACT AGE AND SINGLE CODE INTO BAND

16-29	1
30-39	2
40-49	3
50-64	4
65-74	5
75-84	6
85+	7
Refused	8

D2 INTERVIEWER TO RECORD GENDER OF RESPONDENT
SINGLE CODE ONLY

Male	1
Female	2

E: RECONTACT

READ OUT TO ALL

Thank you for taking part in this survey.

ASK ALL

E1 **Her Majesty's Revenue and Customs (HMRC) is planning to carry out further research on this topic in the future.**

Would you be willing to be contacted by Ipsos MORI in the next few weeks about participating in an in-depth interview? This would be a more in-depth discussion with you on similar topics as we have discussed today. Please note that not everyone will be asked to take part in an interview. You do not have to commit to anything now, just indicate a willingness to be contacted again in the next few weeks.

SINGLE CODE ONLY

Yes	1
No	2

Appendix B: Sample outcomes

In the sample frame telephone numbers were only available in 1,567 of cases. Ipsos MORI ran telephone tracing against the remaining sample, as well as in the case of 'top-up' sample provided Ipsos MORI ran telephone tracing against the full sample regardless of whether it had a telephone number or not, which overall provided a total of 4,370 usable records. In many cases, the business address listed was the address of the company's agent, and therefore telephone tracing was also run against the residential address of the company Director.

Ipsos MORI sent out advance letters to all 4,370 businesses informing them that an Ipsos MORI interviewer might telephone them to take part in the survey, and offering the chance to opt out. Following the opt-out period, 300 businesses opted-out, 29 opted-in, and 168 letters were undelivered.

Table 2.1 overleaf shows the breakdown on the sample used in this research, including the 21 completed interviews achieved in the pilot stage, as well as adjusted and unadjusted response rates. The total figure of 4,070 sample leads used reflects the 4,370 businesses with telephone numbers, minus the 300 that opted-out. The adjusted response rate is a calculation of the percentage of achieved interviews among eligible sample (i.e. the sample that met the criteria to take in this research) where estimated eligibility has been calculated as: $\text{completed interviews} / (\text{completed interviews} + \text{partial interviews} + \text{any refusals and unknowns expected to be eligible})$. It adjusts for the ineligible proportion of the total sample used.

Table 2.1 Sample outcomes

Final sample status	Total sample used (N)	Total sample used (%)	Eligible sample (%)
<i>Eligible sample</i>			
Achieved interviews	1,025	25%	37%
Refusal	902	22%	32%
No answer*	747	18%	27%
Partial interview	104	3%	4%
Total eligible sample	2,778	68%	100
<i>Ineligible sample</i>			
Bad number/respondent moved	846	21%	
No answer*	347	9%	
Ineligible by survey answer	76	2%	
Other dead leads	23	1%	
Total ineligible sample	1,292	32%	
Total sample used			
	4,070		
<i>Opted out</i>			
	300		

*This has been pro-rated on the proportion likely to be valid based on the response rate

Appendix C: Weighting Profile

Profile of 201,693 companies identified in population

Geographical Region	Number of Companies	Weighting
A North East	4,768	2.36%
B North West	20,278	10.05%
C Yorkshire & Humberside	12,134	6.02%
D East Midlands	10,555	5.23%
E West Midlands	15,007	7.44%
F East of England	18,856	9.35%
G London	53,159	26.36%
H South East	32,426	16.08%
I South West	15,007	7.44%
J Wales	5,247	2.60%
K Scotland	11,573	5.74%
L Northern Ireland	2,085	1.03%
M Foreign	20	0.01%
O Unknown	578	0.29%

Use of agent	Number of Companies	Weighting
Does not have Agent	76,838	38.10%
Has agent	124,855	61.90%

Number of directors during 2011-12	Number of Companies	Weighting
Missing	165	0.08%
1	98,668	48.92%
2	73,081	36.23%
3	19,455	9.65%
4	7,309	3.62%
5	3,015	1.49%

Company ceased or not	Number of Companies	Weighting
No	183,062	90.76%
Yes	18,631	9.24%

Appendix D: Topic Guide

Description
<p data-bbox="108 394 558 432">(1) Introduction and warm-up</p> <p data-bbox="108 465 1377 539">Thank participants for agreeing to be interviewed – mention that the interview should last up to 45 minutes in length.</p> <p data-bbox="108 573 1377 685">Research commissioned by HM Revenue & Customs (HMRC) to understand what motivated you to incorporate your business in 2010/11. I'm particularly interested in what steps you took when making that initial decision.</p> <p data-bbox="108 719 1390 869">The interview will take the form of a conversation, rather than a question and answer survey. There are no right or wrong answers – we are just interested in exploring these issues in relation to their business. Re-iterate there will be a chance for them to shape the agenda of the discussion.</p> <p data-bbox="108 902 1394 976">In total, we will be speaking to 30 people who responded to the survey in order to gather a broad range of opinions.</p> <p data-bbox="108 1010 823 1084">Reassure confidentiality – MRS code of conduct. Permission to record – for analysis purposes only.</p>

(2) Respondent's business context

Now I'd like to talk a bit more about your business. I understand the main activity of your business is [ADD SECTOR FROM SURVEY]? What is it involved in primarily? Could you briefly describe your role?

In the survey you said you currently employ [INSERT NUMBER FROM SURVEY]. What are your future plans for taking on employees? Why is that? PROBE ON DIRECTORS/SHAREHOLDERS AND IF FAMILY MEMBERS/FRIENDS AND REASONS FOR HAVING THIS STRUCTURE

Are you currently employed in any other ways / do you have any other businesses?

In the survey you said you expect the company to [INSERT GROW/STAY THE SAME/DECLINE] in the next 12 months? IF GROW Can you tell me what form do you envisage the growth taking? PROBE FULLY more employees, new clients, new markets etc.) IF STAY THE SAME/DECLINE Why is that?

Can you tell me what your long term plans are for the company? PROBE FULLY AND ESTABLISH IF INCORPORATION IS SHORT/LONG TERM STRATEGY

(3) Deciding to incorporate their business in 2010/11

Now I just want to think back to 2010/11 and why you initially decided to incorporate your business.

Can you talk me through that decision?

PROBE:

- What was **the aim** of incorporating? What did they hope to achieve? What specific **benefits** did they expect to achieve? PROBE OVER WHAT TIME PERIOD. DID THEY FEEL UNDER PRESSURE TO INCORPORATE FOR ANY REASONS? (E.G. TO INCORPORATE IN ORDER TO BID FOR CERTAIN CONTRACTS?)

REMIND RESPONDENT DEPENDING ON PREVIOUS DISCUSSION (BASED ON RESPONSE IN SURVEY):

- A: In the survey you said your main reason for incorporating was Tax and National Insurance Savings.
- B: In the survey you said Tax and National Insurance Savings were an important consideration in your decision to incorporate.
- How did you see the tax benefits coming about? PROBE:
 - Were you aware of the dividend process?
 - Have you ever been remunerated in this way before or a different way as a director?
 - Were you aware that people used different remuneration strategies?

- What do you see as the differences between your current arrangement and being an employee? (take home, holiday pay, etc...)
 - Were any of these differences a reason for incorporating?

In the survey, you said it was [INSERT RESPONSE] initial idea to incorporate? **PROBE FULLY: IF THE RESPONDENT SAYS IT WAS THEIR IDEA ASK HOW THEY FIRST HEARD ABOUT INCORPORATING AND IF ANYONE ELSE WAS INVOLVED AT ALL (E.G. ACCOUNTANT) AND AT WHAT STAGE.**

Did you get **any information or advice about incorporating?**

- Who was involved in this process? (official e.g. accountant, or unofficial e.g. peers or business associates; friends; colleagues?)

PROBE. IF AN AGENT WAS INVOLVED IN THE PROCESS, WHAT WAS THEIR SPECIFIC ROLE?

- What did they tell you about incorporating your business?
- Did you consider the extra costs associated with using an agent? [IF PREVIOUSLY OWNED FIRM AND USED AGENT] How much influence did the agent have over your remuneration strategy?

Did anything worry you about the decision to incorporate?

- How did the information and advice influence your decision to incorporate?
- Was there any **conflicting advice** or opinions?
- What factors would have put you off incorporating?

(4) Experience and practice since Incorporating

Now I'd like to talk to you about your experience since you incorporated.

You said in the survey the main benefits to your business have been [INSERT RESPONSES FROM SURVEY]? Can you tell me how this has helped your business?

- Have you experienced any benefits you did not anticipate at the time of incorporating? (E.G. PROTECTION THROUGH LIMITED LIABILITY, IMPROVED REPUTATION, MEETING CRITERIA FOR CONTRACTS, EASIER ACCESS TO FINANCE, ISSUING SHARES ETC) How has this helped your business?
- What have been the drawbacks of incorporating? What impact has this had on your business? INTERVIEWER: PLEASE REFER TO RESPONDENT'S RESPONSES ON EXPECTED DRAWBACKS

Can I ask about **how you pay yourself, and the other directors/shareholders?** **PROBE:**

- Individual's own remuneration strategy e.g. relative use of salary, regular dividends, benefits and expenses, leaving money in the company for later, pension contributions.
- Whether there are any rules they use e.g. salary up to a point, then dividends up to another point.

- How other directors / shareholders / family are rewarded e.g. relative use or salary, regular dividends, benefits etc.

PROBE: For example, some people have indicated that a benefit of incorporating is that their family members can also benefit from things like company cars or company medical cover. Is this something you have considered?

Considering how things have turned out over the past two years, how do you view your decision to incorporate? PROBE:

- Was it the **'right' or 'wrong' decision?** Why?
- If you had to do it again, what, if anything, would you do differently?

REFER BACK TO EXPECTATIONS DISCUSSED IN SECTION 3.

IF RESPONDENT DID NOT GIVE A MINIMUM AMOUNT IN THE SURVEY

Did you consider how much you might save by incorporating? PROBE FULLY: Did you have an amount in mind? IF RESPONDENT GIVES AN AMOUNT: How did you come to that amount?

Was there a minimum amount you were hoping to save when you decided to incorporate?

In your opinion, what do you think is the **minimum amount** a business would need to save in the first year to make incorporation worthwhile? IF UNABLE TO GIVE AN AMOUNT FOR A YEAR ASK OVER WHAT TIME PERIOD Would it be better to not incorporate if this is not achieved?

IF RESPONDENT DID GIVE AN AMOUNT IN THE SURVEY

In the survey you said that you would want to save [INSERT RESPONSE] in the first year to make incorporation worthwhile.

How did you come to that amount?

For your business, would it be better to not incorporate if this saving is not achieved? Why?

Has this amount changed since you first decided to incorporate? If so, how?

(5) Disincorporation & winding companies up

IF RESPONDENT HAS DISINCORPORATED A COMPANY (SEE SURVEY):

In the survey you stated that you have disincorporated a company because [INSERT RESPONSE FROM SURVEY].

Can you talk me through that decision?

- Was it voluntary or did you feel under any pressure to disincorporate?

PROBE AS PER SECTION 3.

- How did you find out about disincorporating?
- Did you seek any advice on disincorporating?
- What benefits were you hoping for?
- Were you aware of disincorporation relief?

- Were you worried about any drawbacks?
- Were any of the benefits or drawbacks realised?

IF RESPONDENT HASN'T DISINCORPORATED A COMPANY (SEE SURVEY):

Can you tell me what you know about disincorporating a company? PROBE Where did you hear about it?

Do you think it will be useful to companies like yours? Why/why not?

Are you aware that you can obtain financial aid to disincorporate? Where did you hear this? Would that impact on your decision to disincorporate?

IF RESPONDENT IS CONSIDERING DISINCORPORATING THEIR CURRENT (SEE SURVEY):

In the survey you indicated that you are considering disincorporating this company.

Can you tell me why?

PROBE AS PER SECTION 3.

- Is it a personal choice or forced decision?
- What outcomes are you aiming for?
- Are you worried about any drawbacks?
- Do you plan to start incorporate again as part of winding up this company?

Are you aware that you can obtain financial aid to disincorporate?

(6) Suggested improvements

We've talked a lot about what it has been like to incorporate but less about what you would like it to be like.

From all that we have discussed, how could incorporating a company be improved? ADD AS NECESSARY: This could be improvements to the process or the benefits of incorporating.

What difference would these improvements make to your company?

(7) Conclusion

Is there anything that we haven't discussed that you would like to raise?

Overall, what do you think is the one thing I should take away from the discussion today

TAKE DETAILS OF THE CHARITY THAT THEY WISH TO DONATE TO. NAME & ADDRESS IF POSSIBLE.

THANK & CLOSE.

Appendix E: Statistical Reliability

The respondents to the survey are samples of the total 'population' of nano and micro businesses that incorporated in 2010/11 so we cannot be certain that the figures obtained are exactly those we would have obtained if all of those businesses had been interviewed (the 'true' values). However, the variation between the sample results and the 'true' values can be predicted from the knowledge of the size of the samples on which the results are based and the number of times that a particular answer is given. The confidence with which this prediction can be made is usually chosen to be 95% - that is, the chances are 95 in 100 that the 'true' value will fall within a specified range.

The table below illustrates the predicted ranges for different sample sizes and percentage results at the "95% confidence interval".

Size of sample on which survey result is based	Approximate sampling tolerances applicable to percentages at or near these levels		
	10% or 90%	30% or 70%	50%
	±	±	±
100 interviews	6	9	10
500 interviews	3	4	4
874 interviews	2	3	3
1,000 interviews	2	3	3
1,200 interviews	2	3	3
1,500 interviews	2	2	3

For example, with an effective base size of 874, where 50% say that tax played a role in their decision to incorporate, the chances are 19 in 20 that the 'true' value (which would have been obtained if the whole population of nano and micro businesses that incorporated in 2010/11 had been interviewed) will fall within the range of +3 percentage points from the sample result (i.e. between 47% and 53% inclusive).

When results are compared between separate groups within a sample, different results may be obtained. The difference may be "real", or it may occur by chance (because not everyone in the population has been interviewed). To test if the difference is a real one - i.e. if it is "statistically significant" - we again have to know the size of the samples, the percentage giving a certain answer and the degree of confidence chosen. If we assume the "95% confidence interval", the differences between the results of two separate groups must be greater than the values given in the following table.

Size of samples compared	Differences required for significance at or near these percentage levels		
	10% or 90%	30% or 70%	50%
	±	±	±
100 and 400	6	9	10
200 and 400	5	8	9
300 and 700	4	6	7
400 and 400	4	6	7
400 and 1,000	4	5	6
500 and 500	4	6	6
500 and 1,000	3	5	5
700 and 1,000	2	4	4