

Today's Copywriting Classics Quick Tip answers the question "What is advertising?"

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By Bret Ridgway

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According to a new survey carried out by Alliance & where ID_NUM=9270; Leicester, one in five small business owners view tax as their greatest concern. The Chancellor has announced in his last budget that companies with profits below oe10,000 will not have to pay any corporation tax with effect from 1 April 2002. The question to be asked is: does that announcement make incorporation a more attractive option compared to being a sole trader?

The answer is that from a tax point of view, it is advantageous to trade through a limited company as long as the income is drawn from the company by the owners as dividends from their shares and the amount of dividends drawn is restricted below the 40% band rate (i.e. oe31,063 for tax year 2002/03). That way, the owners have no further personal tax ("income tax") to pay. Moreover, dividends are not subject to national insurance contributions. This is excellent news of course. But, if dividend income falls within the higher rate bracket of income tax (i.e. above oe34,515), they will be taxed at 22.5% on the excess, which of course will increase the tax burden. The company profits are subject to corporation tax rates. Those are lower than income tax rates.

The most catastrophic scenario is when the director takes his reward from the company as salary. Then his/her salary is taxed at income tax rates (like a sole trader's income).

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That is because, unlike sole traders, the tax system treats companies as separate from their owners because a company is a separate legal entity. The problem is that the income taxes are higher than corporation tax rates. On top of that, they will be subject to employee and employer national insurance contributions, which of course increase the tax burden and render his position worse than even an unincorporated business ("sole trader"), because NIC Class 1 on payroll are higher than NIC Class 2 paid by self employed.

In contrast, a self employed person ("sole trader") is taxed at income tax rates on the profits from his business, which

are added to his other sources of income. As it has already been mentioned, income tax rates are overall higher than corporation tax rates. On top of income tax, national insurance contributions class 4 are payable on the business profits within a specified band (7% on profits between £4,615 and £30,420). National insurance contributions Class 2 are also paid by self-employed people, although those are lower than those payable by company directors on their salaries.

To illustrate the above, let's take a simple example. We have a limited company and a sole trader. They both make £60,000 profits each in the tax year 2002/03. We assume that the company director takes a salary equal to the amount of his personal allowances (untaxed income) of £4,615 and the balance as dividends. The company will pay corporation tax at 19% equal to £10,523 and nothing else. The sole trader will pay income tax £16,542, National insurance Class 2 £104 and National insurance Class 4 £1,806. Total £18,452. The bottom line is that the person that has incorporated his business into a limited company will make a tax saving of £7,929 compared to a sole trader! Isn't that fantastic?

Somebody might be wondering: why is this entire happening? The official explanation is that, this government, to help the economy grow, encourages people to leave as much profits within their businesses to be reinvested, instead of being taken out and spent.

The "unofficial line" is that, as a matter of fact, for years the Inland Revenue has tried to reclassify the

self-employed. The 1% in NIC hike on staff salaries above the NIC threshold from next April adds to both the employees' and employers' tax burden and may more than offset the saving from the corporation tax zero rate on the first of 10,000 of profits.

Aren't there any other matters to consider in deciding whether to incorporate or not?

Higher administration costs to comply with company law, payroll and bookkeeping is one factor. Another issue is pension planning. Extracting profits out of the company as dividends rather than salary means that there will be no "net relevant earnings" and therefore pension contributions can't be made. But the advent of stakeholder pension plans has meant that contributions up to of 3,600 per year can be made without the need for any earnings. If a person does not wish to transfer funds in existing plans into stakeholder

because of high charges, there is a way out: the best net relevant earnings (i.e. salary) in five consecutive years can be used for making contributions for the next five years, even if there were no salaries in the remainder four years. It is comforting to know that entitlement to basic state pension is not affected by taking a salary from the company at the level of a person's personal allowances i.e. of 4,615.

Furthermore, an individual may decide not to bother with pension plans and instead invest in ISA. Often, these can be more efficient than pensions but that's beside the scope of this article. If that option is taken, no salary is necessary.

Another factor is business motoring. It might be tax advantageous for an unincorporated business that owns many cars not to incorporate because if these cars have some private use there will be benefits in kind taxed on the users. These are generally higher than the straight apportionment between private and business for all car running costs in the case of sole traders.

The conclusion is that there can be considerable tax savings waiting the sole trader who decides to go down the road to incorporation. But, one needs to proceed with

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caution and careful planning. And don't forget the biggest advantage of incorporation, which is Protection from Personal Liability. Incorporating is one of the best ways to protect a business owner from personal liability. Shareholders of a company are generally not liable for the obligations of the company. Creditors of a company may seek payment from its assets, but not the assets of the shareholders. This means that business owners may engage in business without risking their homes or other personal property.

Thank you for taking the time to read this Article. I hope you've found it useful. If you have, please drop me an email and let me know what you think.

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The Copywriting Classics Quick Tip is written by Bret Ridgway. To subscribe send a blank email to subscribe@twipress.com. Portions of this issue are excerpted from the Claude Hopkins' book *My Life in Advertising/Scientific Advertising*.

What is Advertising – and What Does it Mean on the Internet?

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"Advertising is salesmanship. The only purpose of advertising is to make sales. It is profitable or unprofitable according to its actual sales."

– Claude Hopkins, one of the early masters of advertising and author of *My Life in Advertising and Scientific Advertising*.

This #1 issue of Copywriting Classics Quick Tips focuses on the late, great Claude Hopkins and how you can apply his decades old marketing wisdom to your online efforts today.

Jay Abraham, renowned as 'America's Number One Marketing Wizard' said this about Hopkins. "Claude Hopkins is the master of them all. His influence has easily added over \$6 million to my personal income...and still counting."

So, what else did Claude have to say about advertising in addition to the quote above? Hopkins said "Advertising is not for general effect. It is not to keep your name before the people. It is not primarily to aid your other salesmen. Treat it as a salesman. Force it to justify itself.

Compare it with other salesmen. Figure its cost and result. Accept no excuses which good salesmen do not make. Then you will not go far wrong."

So how many of us do a good job of this in the online world?

Obviously the only way you can know if your advertising is profitable is to be able to accurately track its results.

How many of us have thrown money at the concept of branding – of keeping our name before the people? Just hoping we'd get some results. I know I've been guilty of it in the past.

So when you're getting ready to place that banner ad, or pay for some online or offline directory listing,

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or bid on that keyword at Overture.com, how are you going to track the cost and result?

And don't delude yourself into thinking that any advertising is "free." The most valuable resource any of us have in our marketing arsenal is probably our own time.

What do you value yours at? \$25 – \$50 – \$100 – \$1000 per hour? Or more? So be sure and include the cost of your time or whoever you're paying to perform that advertising task into calculating the true cost of your advertising.

This is truer then ever in the Internet world. So, know your costs and measure your results. There are online tools available to help you do this, so don't get careless or lazy. The effectiveness of your online advertising can only be measured by its actual sales.

Your task: Analyze all your advertising to determine its true effectiveness. If you're not tracking your results you have to figure out a way to do it now. Why? Because Claude told you so.

Next week - you'll get some more thoughts from Claude Hopkins. This time about how long you should make your ad copy in order to make the sales. Until then, my best wishes for success in all your marketing endeavors.

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You can locate the complete text of Scientific Advertising in various locations online. Or, it is available as part of the package set with My Life in Advertising at the following page:

<http://www.twipress.com/productpages/MyLifeAd.htm>

Bret Ridgway is President of TWI Press, Inc., supplier of hard-to-find classic marketing books via the <http://www.twipress.com> website. He provides a copywriting and advertising resource center at internet marketing conferences for well known internet marketers like Carl Galletti, Jonathan Mizel, Michael Penland, Ron LeGrand and Fred Gleeck.

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