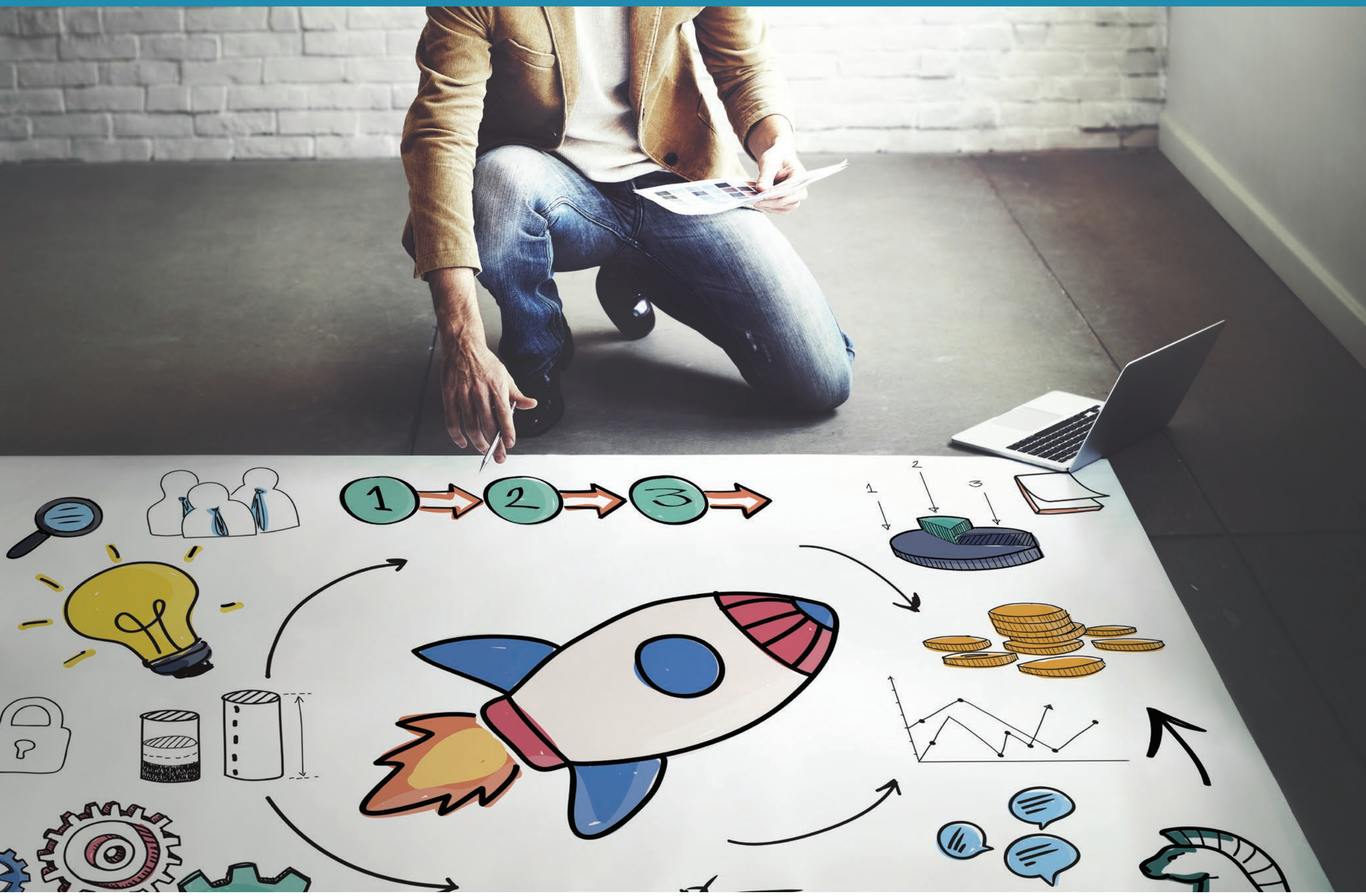
Guide to running a limited company



DavisGrant

CHARTERED CERTIFIED ACCOUNTANTS

Contents

Company Foundations

Before you set about running a limited company, it is vital to check that you have the right foundations in place for your business.

Companies House Registration

The business must be registered with Companies House and you need to provide details of the registered office and the company officers. If you are a service company and do not have a fixed trading address for your business, it is normally possible to use your accountant's address as the registered office for the company and this is a service we provide.

Company Officers

Companies need only appoint at least one director as part of their incorporation. There isn't a requirement to publish your personal address as Director on the public record of the company. You can, however, choose to use your accountant's or trading address as a service address.

Shareholdings

Before the company commences trading, it is important that you have set up the necessary shareholdings.

Shareholders do not need to be officers of the company. Most small and medium businesses are set up with just 'ordinary' shares. However, it is possible to set up different classes of shares with varying rights, if appropriate.

It is important to note that anyone owning shares in the business will be entitled to dividend income, if this is paid out on their class of shares. They also hold a stake in the company in the event that it is sold or wound up, the size of which is based upon the rights of the class of shares.

Bank Accounts

The company is required to have its own bank account. The bank will need a copy of the Certificate of Incorporation in order to set up the account. You can also open a savings or reserve account to help reserve funds for your tax bills.

Disclosure

Every limited company is required to display its name on all business communications, whether in paper or electronic format. In addition, it is compulsory to display your registration details on letters, order forms and websites, including the registered office, registration number and the part of the UK in which your company is registered.

Insurance

Generally, there are three types of insurance you need to consider:

1 **Employers' Liability Insurance**

This covers the employer against claims by an employee. you are the only employee and control the company, not compulsory to have this insurance cover.

2 **Public Liability Insurance**

This covers you against third parties if they claim to suffered because of your actions.

3 **Professional Indemnity Insurance**

This covers you against third parties if they sue you result of your advice or actions.

4 **Business Interruption Insurance**

This is not a compulsory form of insurance but in light of recent events, it may be worth considering obtaining specialist insurance that covers an interruption to business, which includes provisions for pandemics similar unexpected events.

Employment, Pay as you Earn (PAYE) and National Insurance Contributions (NIC)

Registration

If you intend to pay a salary to yourself or others, then you will need to set up a PAYE scheme with HM Revenue & Customs (HMRC). HMRC will issue a reference number to the company for the scheme. We can take care of this for you.

Paying Staff

You are required to calculate and deduct the PAYE and NIC every time you pay your staff. This is payable to HMRC monthly or quarterly.

How is Income Tax Calculated?

There is a personal allowance, which is a tax-free amount individuals are entitled to earn before they pay any Income Tax. An individual is only entitled to one personal allowance, although it can be used in more than one employment.

There is then a basic rate band. The income exceeding the personal allowance is taxed at the basic rate. The basic rate of tax at the date of print is 20%.

If an individual's income exceeds the basic rate band, the excess falls into the higher rate tax bracket. The higher rate of tax at the date of print is 40%.

There is also an additional rate for high earners. At the date of print, if an individual has income exceeding £150,000, this will be taxed at 45%. In addition, individuals earning more than £100,000 will lose part or all of their tax-free allowance depending on their total income level.

How is National Insurance Calculated?

There is a primary threshold, which is an NIC-free amount individuals are entitled to earn before they pay any national insurance. An individual is entitled to one personal threshold per employment, although there is an overall maximum.

For earnings over the NIC-free allowance, the employee is required to pay National Insurance at the standard rate. The standard rate at the date of print is 12%.

If an individual's income exceeds the upper earnings limit, then the excess is charged at a reduced rate. The upper rate of national insurance at the date of print is 2%.

The employer is also required to pay NIC on salary exceeding the NIC-free allowance. There is only one rate for employers' contributions. The employers' national insurance rate at the date of print is 13.8%.

Directors are subject to different rules for payment of NIC, which means that whilst the rates are the same, the timing is different during the tax year.

Paying Yourself

If you are paying yourself a salary, then you are required to run this through the PAYE scheme. This will be via payroll. It is important that the right levels are chosen, according to your personal circumstances, which is where we can help you.

You may also wish to consider paying dividends from the business – please read the Dividends section for more information on this.

Benefits in Kind

If the company provides your staff or yourself with any benefits other than salary, then you are required to complete a P11D form for each individual and file a P11D(b) employers' declaration form with HMRC each tax year. You can register to include the benefits on the payroll before the start of the tax year that the benefits are to be provided, which removes the need to complete the P11D forms.

Benefits in kind include, amongst others, provision of medical insurance, company cars and fuel, company vans and gym or health club membership.

The company also has to pay Employers' Class 1A NICs on the value of the benefits each tax year. The employee will also be required to pay Income Tax on their benefits. If you are in doubt, we can advise on what is of benefit and how you need to action it.

If you pay yourself or your staff a mileage allowance, this is not a benefit in kind provided it is within the statutory limits. At the date of print, the annual statutory mileage allowances for individuals using their personal car for business journeys are:

- 45 pence per mile for the first 10,000 miles
- 25 pence per mile for miles in excess of 10,000

From 6 April 2018, employers also need to be aware that benefit in kind tax rates have increased on company cars, with the percentage applied to the list price of each car dependent on its CO_2 emissions. The tax paid on fuel benefits for company cars and vans has also been increased.

Pension Contributions

Under the complex rules of auto-enrolment, all employers have to provide for their qualifying workers by enrolling them in a workplace pension scheme.

Existing employers should already have completed their auto-enrolment duties in line with their unique staging date, while new employers will immediately have a legal duty to do so from the day they appoint their first member of staff.

Up until April 2018, employers only had to contribute 1 percent of the employee's salary into their pension scheme. However, changes to minimum auto-enrolment pension contributions mean that employers must now contribute at least 3 percent.

While an employee can opt-out of a workplace pension scheme, employers still need to initially enrol them and re-opt them in regularly.

Contracts and Legal Requirements

It is strongly recommended that you issue formal contracts of employment to your staff. These should set out the standard terms and conditions of their employment.

However, if you are the sole director of the company, you may not wish to have a formal contract of employment. This will give you flexibility to adopt a tax-efficient remuneration strategy.

If you run a PAYE scheme, you are required to notify HMRC each time a payment is made to an employee. This is known as Real Time Information (RTI) and the submissions you are required to make may include the following:

- **Employer Alignment Submission (EAS)** to align the records currently held by HMRC to your payroll.
- **Full Payment Submission (FPS)** to provide HMRC with details of the payments and deductions made each time an employee is paid.
- **Employer Payment Summary (EPS)** to notify HMRC of any changes to the tax and national insurance due, as well as notifying HMRC if no employees have been paid in the relevant period.

In addition to this you may also be required to prepare the following:

- **P60** which is given to each employee at the end of the tax year.
- **P11D** which is given to each employee receiving benefits in kind at the end of the tax year.
- **P11D(b)** is submitted to HMRC confirming the total benefits paid by the company each year.
- **P45** which is given to the employee on leaving.

Digital Taxation

As of April 2019, Value Added Tax (VAT) registered businesses with a turnover of £85,000 or more must make VAT returns on a quarterly basis using a 'designated software package'. This is the first stage in the implementation of the Government's Making Tax Digital (MTD) programme, which is intended to take the filing of most taxes online.

Many of our clients are using computer-based accounting packages, such as Xero, and associated applications like Receipt Bank. These packages not only future-proof your business in readiness for each new MTD requirement, but they also enable you to share financial information in real-time with our team and quickly produce bills and invoices.

Keeping digital records and making quarterly updates is being extended to cover VAT-registered businesses from April 2022.

Similar requirements will also apply in respect of Income Tax for unincorporated businesses and landlords with gross incomes of £10,000 or more from April 2023. Those affected will be required to make quarterly digital submissions setting out their income and expenses using HMRC-compatible software.

Businesses need to be prepared for the gradual implementation of the new digital tax regime.

VAT

VAT is charged on most goods and services provided by VAT-registered businesses in the UK. It is also charged on goods and some services that are imported from other countries.

Registration

You will need to register for VAT if the annual turnover of your company exceeds the VAT registration threshold. However, there can be benefits for businesses in registering if your turnover is below this level, depending on the amount of VAT expenditure in your business.

To register, you must submit a VAT1 form to HMRC confirming the business' details. The VAT registration can take up to a few weeks to come through from HMRC.

Once you are registered, you are required to charge VAT on your sales at the appropriate rate, which is known as output VAT. The VAT which you incur on your costs is known as input VAT.

Invoice or Cash Accounting

If your business turnover is less than the cash accounting threshold, then you have the choice of accounting for your VAT either based on when you invoice your customers or when your customers pay you. The cash accounting scheme can help you to match your VAT payments to your business' cash flow.

Depending on the level of input VAT you incur, you may wish to transfer the output VAT element of your sales receipts into a bank reserve account to help save for your quarterly VAT payment.

VAT Returns

Before Each VAT period (usually quarterly), you must account for the output VAT you have charged to your customers and deduct the input VAT incurred on your costs from this. You must then pay the net balance to HMRC and file your VAT return with them each quarter.

You are required to file your VAT return electronically and pay by Direct Debit or bank transfer.

Flat Rate Scheme

If your business' turnover is less than the Flat Rate Scheme (FRS) threshold, then you may wish to use this scheme. The FRS was implemented by the Government to reduce the administrative burden for small businesses. The scheme is designed to be tax neutral and to enable businesses to pay an appropriate fixed percentage rate.

Businesses with limited costs, known as 'limited cost traders', pay VAT under the scheme a rate of 16.5 percent. In some cases, this may mean that the flat rate scheme is not appropriate for you. At Davis Grant, we can help you decide if the scheme is beneficial.

Corporation Tax

Registration

Once you have registered your limited company with Companies House, HMRC should be advised that your company exists. HMRC will then contact you and ask you to complete a form CT41G confirming your company details.

This form will indicate the company's Unique Tax Reference (UTR), which is a ten digit number, and the company's allocated HMRC Tax Office.

Calculating and Paying Corporation Tax

Corporation Tax is paid by the limited company on its net profits after allowable expenses and capital allowances. Corporation Tax is always calculated based on the accounting period to a maximum of 12 months. If your accounting period is more than 12 months, you will need two tax returns to cover the period.

Corporation Tax must be paid to HMRC nine months and one day after the accounting period, provided that the accounting period is not more than 12 months in length. If the accounting period is longer than 12 months, the profits will be split and there will be two payments due to HMRC, one nine months and a day after the first 12-month period and the second nine months and a day after the accounting period end date.

HMRC is also consulting on bringing the reporting of Corporation Tax within the MTD regime.

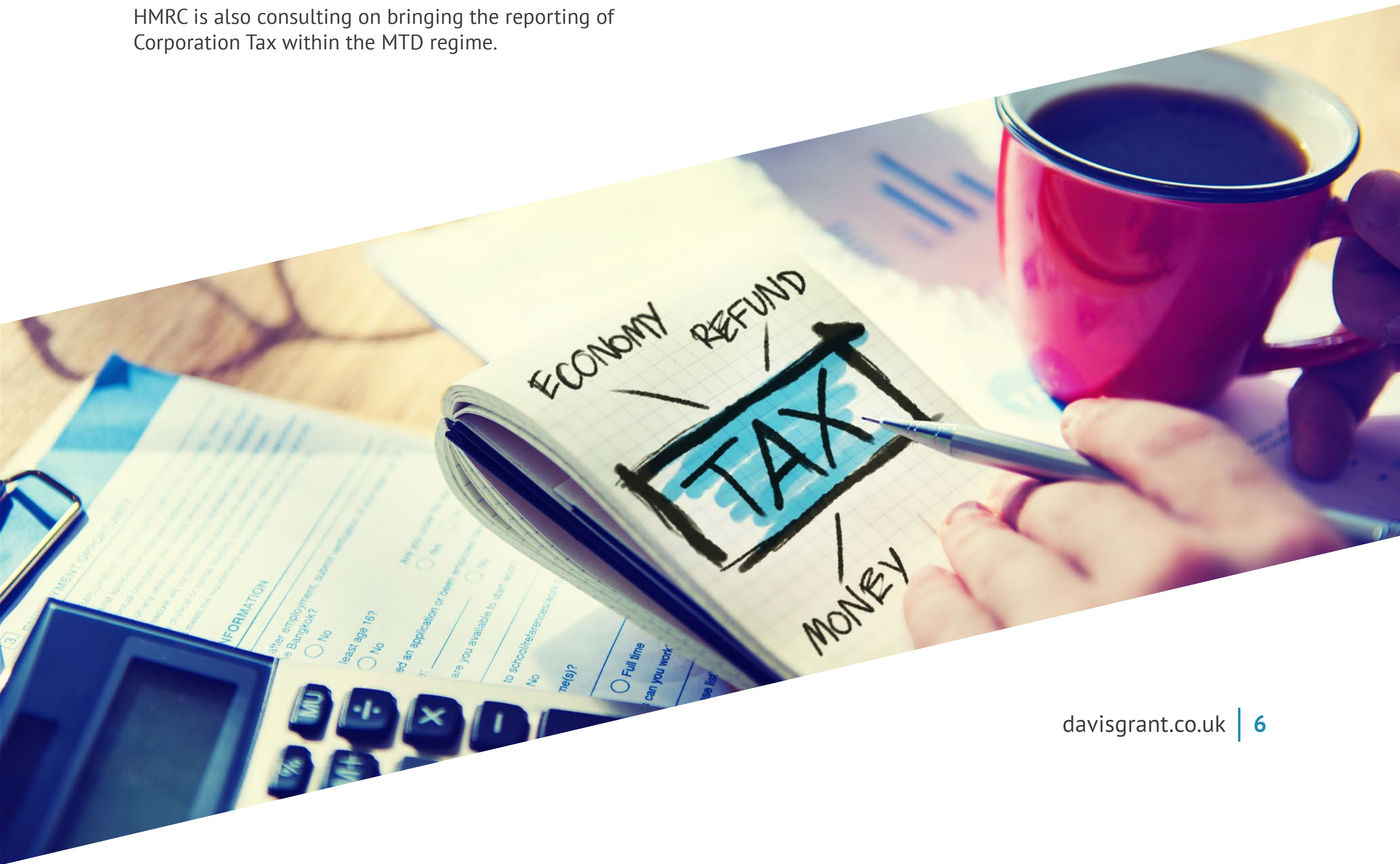
Tax Planning

As the tax is not payable until nine months after the first accounting period, it is advisable to try and reserve some funds over the course of the year in preparation of this.

There are measures you may wish to consider to reduce your tax liability, or to maximise the amount of tax you can reclaim on certain investments like qualifying company assets. Capital allowances can be claimed on some items of office equipment, fixtures and fittings and plant and equipment. It is important to understand the allowances and rates available for capital allowances, as these can change on an annual basis.

You may also wish to consider other items, including additional employer pension contributions or staff bonuses, if appropriate.

We can help you with your tax planning strategy, ensuring you consider all aspects of taxation – corporate, personal, direct and indirect.



Dividends

Paying Dividends

Dividends can be paid out of the post-tax profits of a limited company to its shareholders. If you are paying out interim dividends during the year from your limited company, it is a legal requirement to ensure that the company has made sufficient profits to pay these (after allowing for the Corporation Tax liability).

Depending on the share structure of your company, you may be able to pay dividends on the different classes of shares, but these must always be in accordance with the number of shares each individual holds of that particular class. If you only have one class of ordinary shares set up in your company, then dividends must be paid to all shareholders in accordance with their shareholding.

Dividends are treated as income for the shareholders and Income Tax will be calculated based on their total income. There are separate Income Tax rates for dividend income compared to other forms of income.

From April 2018, any individual receiving a dividend income benefits from a tax-free allowance on the first £2,000 they receive, while any amount over that threshold will be subject to tax. Previously, the tax-free allowance was £5,000.

Dividends above the allowance amount will be taxed at 7.5 percent (basic rate), 32.5 percent (higher rate), and 38.1 percent (additional rate).

As company dividends are not treated as earnings, there is no NIC payable. Due to the NIC saving, it can be a tax-efficient strategy to pay a low salary and take the remainder of the drawings as dividends.

We can help you with an appropriate profit extraction method for your business and personal circumstances.

IR35

IR35 was introduced in April 2000 in order to clamp down on "disguised employment". This is where HMRC believes that people have set up artificial limited company structures in order to avoid tax, instead of working as a normal employee.

Where a company provides the services of a member of staff to a client (either via an agency or directly) and the terms are such that without the intermediary company, the individual would be an employee of that client, then IR35 comes into effect. The impact of any companies being caught by IR35 is that HMRC would seek to tax the company's profits in the same way as a salary.

There are various factors and considerations which should be taken into account when deciding if the company falls within IR35 or not, and this should be looked at on a contract-by-contract basis.

If you are not sure if your company falls within this anti-avoidance legislation, speak to us for more information and advice regarding IR35.

Personal Taxation

Directors' Obligations

While not a legal obligation, most directors must file a personal tax return with HMRC each tax year. The tax return notice should be issued by HMRC in April of each year following the tax year end. If you have not received a notice, but have been a director during the previous tax year, you should contact HMRC to advise them you need to complete a return.

Self Assessment Tax Returns

Tax returns are prepared and filed under the self assessment system. The tax return will include details of your income from all sources including salaries, dividends, bank interest and rental income. You may also be able to claim higher rate tax relief on pension contributions and gift aid donations via your tax return.

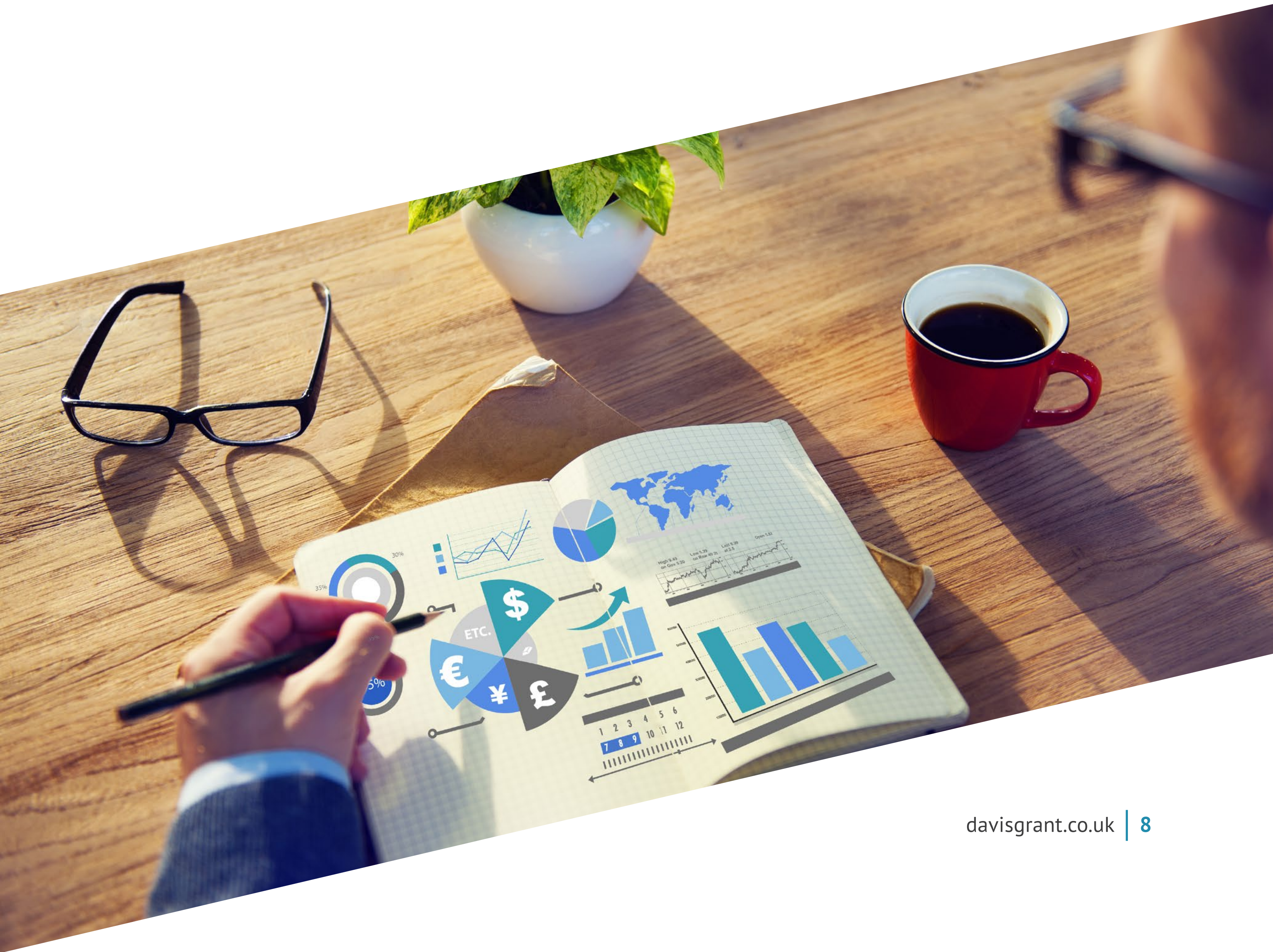
The deadline for filing your tax return is 31st October following the tax year end if you are sending in a manual form to HMRC, or 31st January if you are filing this electronically.

Tax Payments

Any outstanding tax liabilities are also due to be paid by 31st January following the end of the tax year. If you have a significant regular tax liability, you may be required to make payments on account during the tax year in advance of the balancing payment deadline.

The payments on account system can be complex if you have fluctuating levels of income across the tax years. Davis Grant can help provide your tax information on a timely basis to ensure you can plan for your tax liabilities effectively.

At Davis Grant, we have a dedicated tax team with specialists in personal tax who can complete the tax return for you and confirm your tax liabilities and payment on account position.



Record Keeping

Accounting Records

You are expected to maintain appropriate accounting records for the company. Whilst there is no set requirement as to how you maintain the records, HMRC requests that the records are adequate for the size and complexity of the business.

As a minimum, you ought to maintain:

- Copies of sales invoices sent to your customers.
- Purchase invoices for any supplier costs you incur.
- Expenses claim forms for items reclaimed from the business by any directors or employees (including details of journeys for any mileage claims).
- Petty cash expense receipts.
- Bank account statements for the company account.
- Statements for any company credit cards.
- Copies of any loan / finance / hire purchase / credit accounts the company has with any third parties.

You are required to retain the records for a period of six years.

Accounts Systems / Software

There are many bookkeeping software packages available with varying functions. Before you set up a system, you need to:

1. Confirm the upfront and ongoing licence costs.
2. Consider what functionality you will require. For example, if you require a stock control facility or need to be able to process transactions and report in foreign currencies.
3. Consider whether you want to hold your accounts data physically in-house on your computers / servers or if you want to use a cloud-based operation.
4. Review which software / system will be user-friendly for you / your accounts team.
5. Consider your backup arrangements and the security of your accounts data.

xero PLATINUM PARTNER

We are proud of our Xero Platinum Partner status which outlines our expertise on this market-leading cloud accounting platform. Online accounting is a great tool for business owners who are on the go and want to access their key data at any time.

Our specialist business services team can help you choose and set up the most appropriate record-keeping system for you and your business.

Invoicing

In order to receive money from your customers, you will need to provide them with an invoice. Legally, an invoice must contain the following details:

1. Full company name and registered off address.
2. Invoice date.
3. A description of the goods or services.
4. Total amount paid.

It is also good practice to include:

1. The company's registration number.
2. Trading address (if different from registered office address).
3. Invoice number, which should be sequential if possible.
4. The name and address of the customer.

There is then further information to include if you are VAT registered business.

Expenses

The key question which most new business owners ask is:

What expenses can I claim for?

The legal answer is that you can claim for anything which is wholly, exclusively and necessarily for the business.

In practical terms, this typically includes the following expenses:

- Wages, salaries and associated costs
- Employer pension contributions
- Office accommodation (including home office costs)
- Insurance
- Business travel (including mileage and public transport)
- Postage and stationery costs
- Mobile phone costs
- Telephone and broadband costs
- Computer equipment and software
- Technical books and publications
- Work-related training costs
- Subscriptions to approved professional bodies
- Accommodation and subsistence costs whilst working away on business
- Accountancy fees
- Bank charges and interest (if you incur any)
- Professional fees
- Staff entertaining

Filing Requirements

Annual Accounts

Every limited company in the UK is required to file accounts with the Registrar Companies House. Accounts are usually made up to the business' accounting year end. The company's year end is originally set on the month in which it was incorporated. It is possible to change your company's year end, but an accounting period must not exceed 18 months. There are also restrictions on extending the year end more than once in five years.

The annual accounts must comply with the Companies Act 2006, including the format and notes to the accounts. Smaller businesses are able to file filleted accounts (or micro accounts, if certain conditions are met), which means that they do not need to file a profit and loss account on the company record.

The accounts must be filed with Companies House within nine months of the accounting date. There are strict penalty regimes for late submission of accounts enforced by the Registrar.

Corporation Tax Return

A Corporation Tax return and tax computations must be filed with HMRC within 12 months of the accounting date. If the accounting period is for a period of more than 12 months, two Corporation Tax returns are required.

Corporation Tax computations and accounts must be filed electronically with the tax return form. These accounts need to be in iXBRL format, which is a computer code to allow the accounts to be read electronically by the HMRC system.

Annual Confirmation Statement – Form CS01

Every limited company is required to file form CS01 annually with the Registrar. This form confirms the registered office, officers, shareholders of the company and the Persons with Significant Control. Companies House charge a filing fee, currently £40, for this each year (or £13 if you file this electronically).

TIMETABLE	
PAYE	• PAYE / NIC deductions need to be paid to HMRC either on a monthly or quarterly basis. The payment is due by the 22nd after the end of the tax period. • Full Payment Submission (FPS) is due each time an employee is paid and, when required, Employer Payment Summary (EPS) by 19th after the end of the tax period. • P60s are due after the end of the tax year – they need to be distributed to employees by 31st May following the tax year.
P11Ds	• P11D(b) and P11D forms need to be completed if any benefits in kind or expenses are provided to any employees – these need to be filed by 6th July following the end of the tax year. • Class 1A NIC is paid by the employer on any taxable benefits in kind – this is payable to HMRC by 19th July following the end of the tax year.
VAT	VAT returns are normally completed on a quarterly basis – these are due one month and seven days after the end of the VAT period.
Accounts	Annual accounts need to be filed within nine months of the accounting period end date.
Annual Confirmation Statement	This CS01 form is prepared at the anniversary of the company's incorporation – this is due within 14 days of the return date.
Corporation Tax	Payment of Corporation Tax is due within nine months and one day after the accounting period end date. The annual accounts, Corporation Tax return and computations to be sent to HMRC within 12 months of the accounting date.

Working with an Accountant

It is vital that you take care in choosing the right accountant to work with. Here are our suggestions of what to look for:

- Your accountant partner ultimately needs to be someone that you feel comfortable with and that you trust.
- You should also confirm that your accountant is appropriately qualified and affiliated with their national governing body. Many people call themselves 'accountants', but they may not actually have any qualifications.
- You should confirm the history of the accountancy firm to ensure that they have experience in practice.
- You should ask for testimonials or references from other clients they act for.
- If you require additional support or services, you should check that the accountant can offer these, for example, bookkeeping training, payroll bureau service, audit, management accounting and tax planning.
- You should ask your accountant to confirm their fee structure upfront.

At Davis Grant, we work with businesses of all sizes and across most industries. We can provide an accounting package to suit your requirements, so that we help with as much or as little as you want.

Some of our clients prefer to outsource their whole accounting operation to us, whilst others maintain these themselves and we work with them to complete the annual accounts and taxation work.

It is, however, vital that you know exactly how your business is performing over the course of the year. We can assist you with this by providing monthly or quarterly management accounts or by using our dedicated online dashboard, Grand Vista, which will give you the information you need, whenever you require it.

Our business services team specialises in working with start up businesses and would be pleased to meet with you to discuss your new business.

Why not contact us to find out how we can help you with your current position and future plans.

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