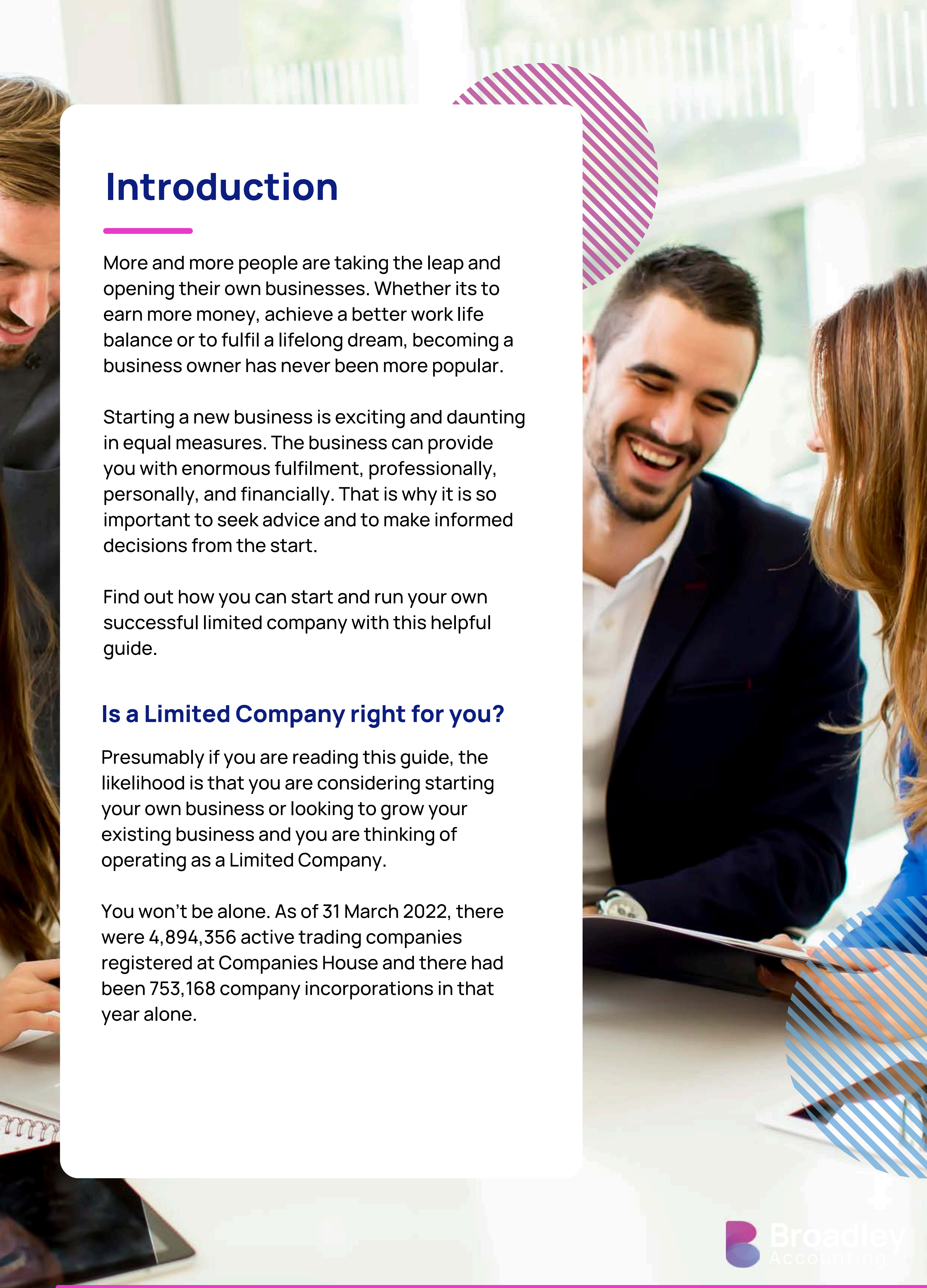
BROADLEY ACCOUNTING | 2024 | V1

Running a Limited Company

Broadley Accounting



Introduction

More and more people are taking the leap and opening their own businesses. Whether its to earn more money, achieve a better work life balance or to fulfil a lifelong dream, becoming a business owner has never been more popular.

Starting a new business is exciting and daunting in equal measures. The business can provide you with enormous fulfilment, professionally, personally, and financially. That is why it is so important to seek advice and to make informed decisions from the start.

Find out how you can start and run your own successful limited company with this helpful guide.

Is a Limited Company right for you?

Presumably if you are reading this guide, the likelihood is that you are considering starting your own business or looking to grow your existing business and you are thinking of operating as a Limited Company.

You won’t be alone. As of 31 March 2022, there were 4,894,356 active trading companies registered at Companies House and there had been 753,168 company incorporations in that year alone.

Whilst running a Limited company can offer many benefits, it comes with a series of responsibilities, so here is a quick reminder of key factors to consider when going down this route.

- **Access to finance and investment** - if you plan to grow then most lenders and investors prefer to invest in a Limited Company.

- **Duties and responsibilities** - you will probably be both owner and director of your company. The roles are different. As a director you have legal obligations under the Companies Act. Failure to meet these can lead to disqualification.

- **The future** - separating you from your business means the business can grow beyond you. In the beginning you will be your business and ultimately the reason it succeeds, but over time you may wish to step back or sell the business.

- **Limited liability** - as the business is a separate legal entity your assets and those of the business are separate. You are not liable for the business's debt.

Incorporating your limited company

To incorporate your company, you'll need to have established:

- **A Company name and address** – (your registered address). This address is seen publicly. See page 7 for more information.
- **A director** (yourself) and your home address, which is compulsory but not made public.
- **Details of company shares**, you should seek advice from an accountant, like us, before deciding this.
- **Your company's SIC code**. A SIC code is a Standard Industrial Classification code, used by Companies House and Government to sort companies into categories for statistical and reporting purposes.

In addition, you'll need to provide details of people with significant control (PSC) over your company. A person with significant control is someone who owns or controls your company, and they are sometimes referred to as the "beneficial owner". A PSC is someone who holds.

- More than 25% of shares in the company
- More than 25% of voting rights in the company
- The right to appoint or remove the majority fo the directors

You'll also have to create a memorandum and articles of association, in other words, the company's written rules that regulate the relationship between directors and shareholders.

Whilst model versions of these documents are available on the internet, they may not be suitable for your company depending on your set up e.g., when you are a sole director. This is where advice from your trusted advisers is especially valuable.

What is a registered office and which address should you use?

Your company's registered office address is the location where official correspondence is sent. It will appear on your invoices, website, email sign off and stationary. Your registered office cannot be a PO Box, and if you don't yet have a trading address you may want to keep your personal residential address out of the public domain.

In that instance it is common to use your accountants address as your registered office and a place for receiving documents. Alternatively, there are companies who specialise in providing registered office addresses and mail forwarding services.

What are share classes and do I need them?

Your company can be incorporated with different types of shares with different rights. The rights may cover whether owners of those shares can vote, or, are entitled to a dividend. Different share classes are common when you have different investors, particularly over a period of time.

Can I give shares to my spouse/partner?

Shares can be allotted to anyone over the age if 18. When allotting the shares, it is important to consider your reasons for doing so, since HMRC may seek to tax you on the dividends earned from those shares if they feel that the overriding reason to allot them was to avoid additional tax liabilities.

We can advise on the share structure of your company but if you are thinking of allotting shares to a spouse or partner you might want to think consider the following:

- Consider the % allocation in line with their role in the business. Will they generate income for the business? Do they undertake vital back office tasks? If so you have a strong commercial reason for rewarding them with a share of the business and therefore dividend income.
- If you decide to change shareholdings between you and you spouse more than once, HMRC may seek to say the spousal gift exemption does not apply.
- If you make a dividend payment shortly after a share transfer, HMRC may try to argue that the transfer has been made 'wholly or substantially' for a right to the income as there was an expectation that the dividend payment was about to be made.

Do I need a shareholder's agreement?

A shareholder's agreement regulates the relationship between shareholders.

Unlike your company's memorandum and articles of association, it is a private document. You are not required to have a shareholders' agreement.However, if there is more than one shareholder, it is advisable.

The document is useful for detailing with what happens If a shareholder wants to leave, or for including special rules between business owners. As a new company director and shareholder, it is hard to anticipate every circumstance you may face. Your adviser can help.

Register with HMRC

Registration with HMRC is required for you to set up a payroll, pay your company taxes and register for VAT. This is explained in detail on page 10 of this guide.

Set up a business bank account

Your limited company is a separate legal entity to you personally, and so it needs its own bank account to be able to accept and make payments.

Make sure you choose a bank and open the company account well in advance of your first invoices and payments. Know Your Customers (KYC) regulations and Anti-Money-Laundering (AML) legislation requires banks to complete checks on the directors and shareholders of companies applying for accounts. These include identity checks which can be quite in-depth and time consuming, so start the process of opening an account as soon as your company is incorporated.

You may also want to make sure that the bank you choose, integrates with your chosen accounting software to help automate some of your record keeping.

Choose your accounting software

It is important to maintain good accounting records from the outset and for financial management habits to be established. A good accounting software is designed to make the process of keeping your books and records easier and more compliant. It will also prepare your company for when Making Tax Digital (MTD) becomes compulsory (see page 29) and should enable you to have financial data on a real time basis to support decision making and business growth.

Your Duties as a Director

Your company is a separate legal entity from you, even if you own all or some of the shares.

Directors' duties are set out by the Companies Act. Your primary responsibility is to act in the best interests of the company, and you cannot put your own interests ahead of the company's. For example, if the company owes money to creditors such as suppliers, and owes money to directors and shareholders, your duty as a director is to put the company first and pay the creditors, not yourself.

Maintaining books and records is a key responsibility and good governance. Your accounting software will keep most of the records required, if you ensure it is kept up to date through efficient bookkeeping. To be compliant with Making Tax Digital (MTD), your company must keep digital records for VAT. Currently, MTD for Corporation Tax doesn't come into force until 2026.

Using a limited company should mean that in most cases, your personal assets are protected from business liabilities. However, if the company becomes insolvent, broadly defined as the company not being able to pay its debts as they fall due, there is potential for you being personally liable, as a director, for the company's debts.This can be the case if you decide to carry on trading when there is little prospect of the company'sfinancial position improving.

You are responsible for ensuring that Statutory Accounts are filed at Companies House within 9 months of the year end.

Registering with HMRC

Registration with HMRC is essential for your company to pay tax. As soon as you have incorporated, you'll be able to register your company with HMRC. This is a quick and simple process. It's also a necessary one as it's the only way for you to pay company taxes. It's best to get this out of the way early, as failure to register your company with HMRC will incur a fine.

HMRC will issue your company with a Unique Taxpayer Reference known as a UTR. This will be sent to you on a letter called a CT41G. This reference is required when submitting Corporation tax returns and making tax payments.

VAT

Registration with HMRC is required for you to set up a payroll, pay your company taxes and register for VAT. This is explained in detail on page 10 of this guide.

This is a separate process from registering for Corporation tax and once registered you will need to submit quarterly VAT returns.

PAYE

Similarly, if you plan to pay yourself a salary and employ other people, you will need to register as an employer to obtain a Pay As You Earn (PAYE) reference number to run your first payroll.

You can choose to register for CT, VAT and PAYE with HMRC yourself, but it is often advisable to allow your accountant to register on your behalf and act as your tax agent. This means copies of correspondence will be sent to us and we can help to minimise your administrative load and guarantee that deadlines for payments and submissions are met.

Several forms need to be filed during the company tax year, including Corporation Tax returns, VAT returns, P11Ds and end of year submissions.

Much of this is now completed online and we have the relevant software that speaks directly to HMRC.

REGISTER
Username
****
Password
****
Re - Password
****
REGISTER NOW

Insurance

All businesses need to consider insurance and Limited companies are no different. You should consider:

Business Insurance

- **Professional Indemnity (PI) insurance** - PI insurance provides cover for the financial consequences of professional negligence. If a client alleges you've made a mistake, or if you've made an error whilst working, then your legal defense costs, as well as any damages awarded to the claimant, will be covered, allowing you to get on with the important business of running your company, safe in the knowledge that you're protected.Public liability insurance: To protect companies against claims made by third parties.

- **Business equipment insurance** - To cover damage to or loss of business assets, such as computers and office equipment, or plant and machinery. Even if you work at home, your household insurance won't cover these assets.

- **Employers' liability insurance** - A legal requirement if you employ anybody through your company.

Buildings and Vehicle Insurance

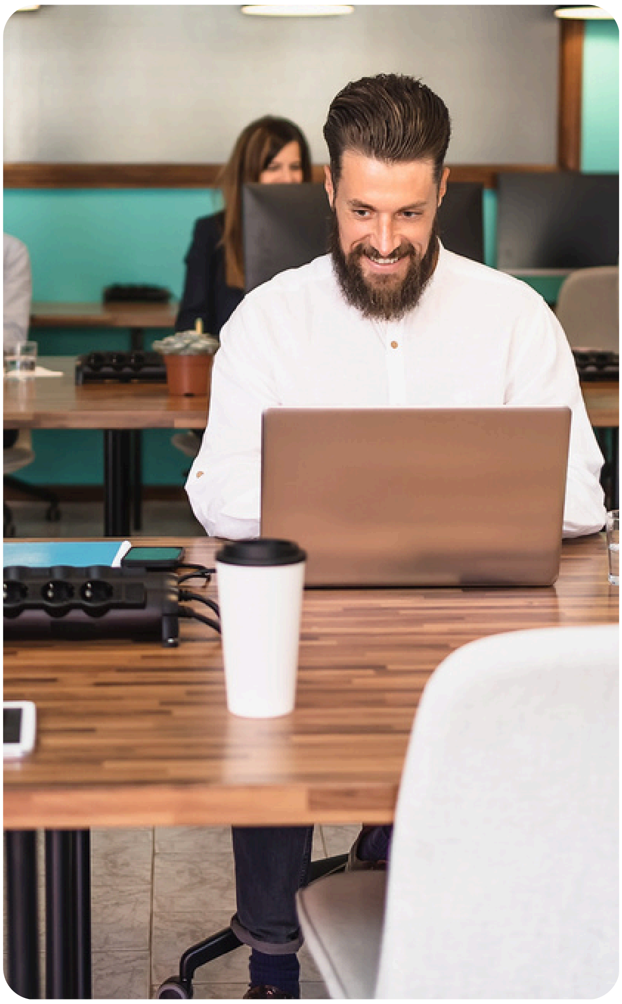
You will need insurance for your business premises and company vehicles as well.If you work from home, you may need specific home working insurance and should notify your domestic insurer accordingly.

Income protection insurance

This will come in handy if you ever suffer a prolonged period of illness and cannot work as a result. This provides a level of cover based on an estimate of your annual earnings. It can also be a tax-deductible expense.

Life insurance

Leaving employment means losing benefits including death in service that can support your family and/or dependants after you have passed. Purchasing life insurance provides a safety net for your loved ones in the event of such a tragedy and again it can save you tax.



The UK Tax System

Depending on how you run your company and take your remuneration from the business, you or your company will be liable for some or all the following taxes:

Corporation Tax - This needs to be applied to limited company profits prior to the distribution of dividends, see page 15.

Value Added Tax (VAT) - You can charge VAT on your invoices and pay VAT on company expenses. You need to report this quarterly, see page 17.

Capital Gains Tax - If you have properties or investments, you own personally, you may have to pay this tax on the profits if you sell the asset.

Dividend Tax - This is a tax applied to dividends and needs to be declared in your Self-Assessment tax return at the end of the year, see page 20.

Income Tax - If you pay income tax on a salary, it needs to be included in your Self- Assessment tax return. This is generally paid via two payments on account, the deadlines for which are 31 January and 31 July of each year. If you are paid a salary above the personal allowance thresholds, or have employees, your company will pay income tax on your and your employees' behalf via PAYE.

National Insurance Contributions (NICs) - If your earnings are above the NIC threshold, you and your employees(if you have them),and your company will be liable for employee's NICs and employer's NICs respectively, see page 19.

Corporation Tax

You pay Corporation Tax on your limited company profits. Your profits are calculated by deducting expenses and employee salaries from sales income, but prior to the distribution of dividends.

The UK's Corporation Tax rates are currently 19% on profits up to £50,000 and 25% on profits over £250,000. For any profits between the two levels, a marginal rate applies on a sliding scale.

If you own more than one limited company, then these limits may be lower.

How is Corporation Tax determined?

Corporation Tax is applied to your net

company profit. In addition to your company trading profits, you will also need to consider profits from:

- Investments, including returns from assets such as rental property that your company owns etc
- Chargeable capital gains, including profits from the sale of business assets, such as plant and equipment etc.

As well as deducting expenses and employee salaries there will also be other deductions from or additional allowances for profits, such as writing down the value of tangible assets such as equipment, plant, vehicles or fixtures and fittings. The figure remaining will be the sum from which Corporation Tax is deducted.

Determining your profit for tax purposes can be complex, as there are many allowances and deductions for specific treatment of business assets. Your accountant can play an essential role in ensuring you don't underpay, or overpay, corporation tax.

How and when do I pay?

You need to submit your Corporation Tax return - an online form called a CT600 - to HMRC annually. This informs HMRC of your Corporation Tax liability, by detailing your limited company's income,tax allowances and expenses. It's a good idea to let an accountant takes care of this for you.

You have until nine months after your company's financial year end to pay your Corporation Tax liability, though peculiarly you can file your return up to 12 months after the company year end.

The Making Tax Digital (MTD) initiative to digitise tax is due to include Corporation Tax by 2026. Once this is implemented, the current plan is that your CT returns will be filed quarterly.

Setting aside money for Corporation Tax If you are used to having tax deducted at source, paying taxes annually can come as a bit of a surprise. Throughout the year you need to set money aside for Corporation Tax. By running a profit and loss account report each month that also considers likely allowances and deductions, we can provide you with an estimate of how much you need to hold back as a portion of your turnover.

VAT

Value Added Tax (VAT) is the UK sales tax, levied at a standard rate of 20% on all goods and services except those that are exempt or zero rated. Businesses whose gross income is above £90,000 VAT threshold (correct as of 2023/24) are obliged to register for VAT.

You collect VAT for HMRC by adding it to the invoices that you give to your customers (output VAT). This is then paid onto HMRC, usually on a quarterly basis. However, you can also claim back VAT from your operating expenses such as raw materials and stock, fixtures and fittings, technology or equipment (input VAT). Your company will pay the difference between the amount of input VAT collected and output VAT claimed on a quarterly basis.

VAT can prove to be an effective way to save money, particularly when you are setting up. Here are the key advantages:

- The VAT amount paid on business expenses can be deducted from your company's VAT liability when your quarterly payment is due
- Making quarterly payments means your company benefits from a cash flow advantage
- You can also earn interest on the money

The VAT Flat Rate Scheme (FRS)

The downside to VAT is having to prepare VAT returns, which means maintaining accurate records for each transaction. Even with an efficient digital accounting system that automatically submits your returns, as required by Making Tax Digital (MTD), VAT accounting can be time consuming. HMRC introduced the VAT Flat Rate Scheme (FRS) for smaller companies who want to re-claim VAT with less administrative hassle.

The scheme allows companies eith a turnover of under £150,000 to pay vat at a fixed rate. The rate is determined by the company's industry and can vary from 1% to 16.5%. Under the FRS, you can only claim VAT back on specific large capital goods purchases over £2000.

After finding that some users were making a modest profit from the initiative, the Government introduced changes in April 2017. The 16.5% higher rate now applies to any company whose goods cost less than either:

- 2% of its turnover
- £1,000 a year (if its costs are more than 2%)

HMRC refers to these companies as 'limited cost businesses.' Because the rates vary so much according to the nature of your business, you should discuss whether the FRS is suitable with your accountant.

At the same time, you can discuss the advantages and disadvantages of using the cash-based VAT scheme as opposed to the accrual's basis.

Pay as you Earn (PAYE) & National Insurance Contributions (NIC's)

PAYE is used by HMRC to collect income tax and NICs from employment, whereby a deduction is calculated and made each time the employee is paid. This is taxing 'at source'. If your company employs people, you must run a payroll that operates PAYE and deducts your employees' income tax and NICs. A weekly or monthly pay slip must be issued to each employee detailing gross pay and deductions.

If you take a salary as a director, PAYE will apply to your salary as well.

How to operate PAYE

If you employ people or have chosen a regular salary as part of your personal remuneration strategy, you and your employees' pay will be subject to employment taxes. In which case, making payments via PAYE is required for your employees and most likely the easiest option for you. This requires your limited company to operate PAYE as part of its payroll.

Payments and deductions need to be reported to HMRC via Real Time Information (RTI) using accounting or payroll software solutions on or before each pay day, whilst annual reports need to be made at the end of the tax year, including details of any expenses or benefits.

Most accounting software has a payroll module, or you can use dedicated payroll software. It is also a service that your accountant may readily provide.

Self-Assessment

As the director and an employee of your limited company, you will need to keep on top of both company and personal taxation, which involves preparing a Self-Assessment tax return each year. your accountant will help you do this and make sure you don't miss any deadlines.

What is a Self-Assessment tax return?

Your Self-Assessment tax return is used to determine the amount of income tax, dividend tax, NICs and capital gains tax due, on income drawn from your company, as well as any other possible sources of income such as rental properties and other personal investments.

It applies to any person who receives income from which tax isn't deducted automatically – this is likely be income sourced through dividends and other investments.

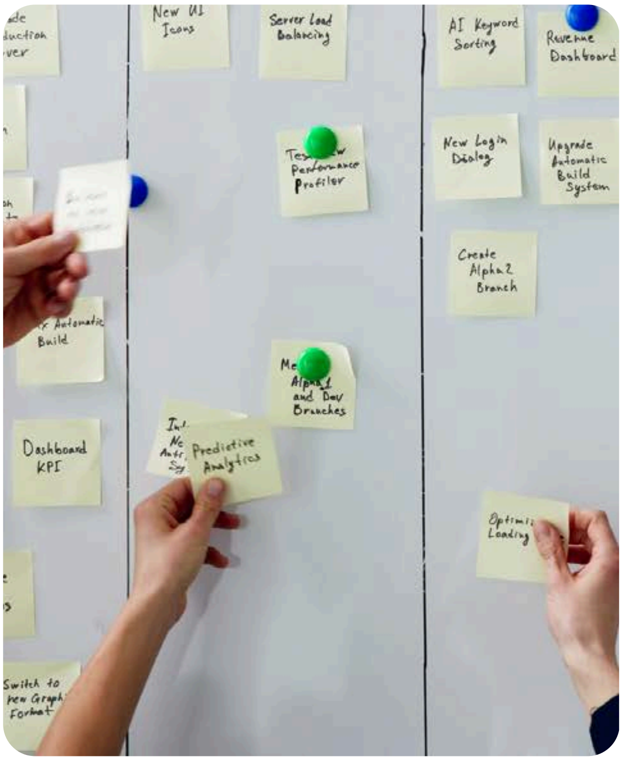
To complete your tax return, your accountant requires details of all personal income from all sources received throughout the tax year, as well as details of any expenses and reliefs that can be claimed. You will need to provide this information throughout the year and keep careful records.

Don't miss the deadlines

- **Paper filing - 31 October** following the end of the tax year
- **Online filing - the following 31 January**, which is also the deadline for payment.

If your income tax liability exceeds certain £1,000, HMRC will request a payment on account – an advance payment on your next tax return judged from your income from the prior tax year - on 31 January in the 5 April tax year and 31 July following end of the tax year.

It's also important to remember that this is a personal tax return. As a result, if you charge the fees for completing the tax return to your limited company, it will be classed as a benefit in kind and income tax will be due on it.



Record Keeping

You must keep and retain certain accounting records showing your company's transactions and its financial position. You must do this even if your company is not currently trading or is no longer trading.

Required company records include:

- A record of your company's assets, for example a record of 'capital expenditure' such as the purchase and sale or disposal of company assets, equipment, office furniture and vehicles
- A record of your company's liabilities
- A record of your company's income and expenditure
- Details of any stock on hand at the end of your financial year

You should retain certain business records, for example:

- Annual accounts, including your profit and loss statement and balance sheet.
- Bank statements and paying-in slips
- Timesheets, invoices, and credit notes
- Purchase invoices and cash expenses receipts

The business records that your company keeps for Corporation Tax purposes must:

- Be complete and up to date
- Allow you to work out correctly the amount of Corporation Tax you owe to HMRC, or can reclaim from HMRC.
- Allow you to file an accurate Company Tax Return
- Be easily accessible if HMRC asks to see them during an enquiry into your Corporation Tax affairs

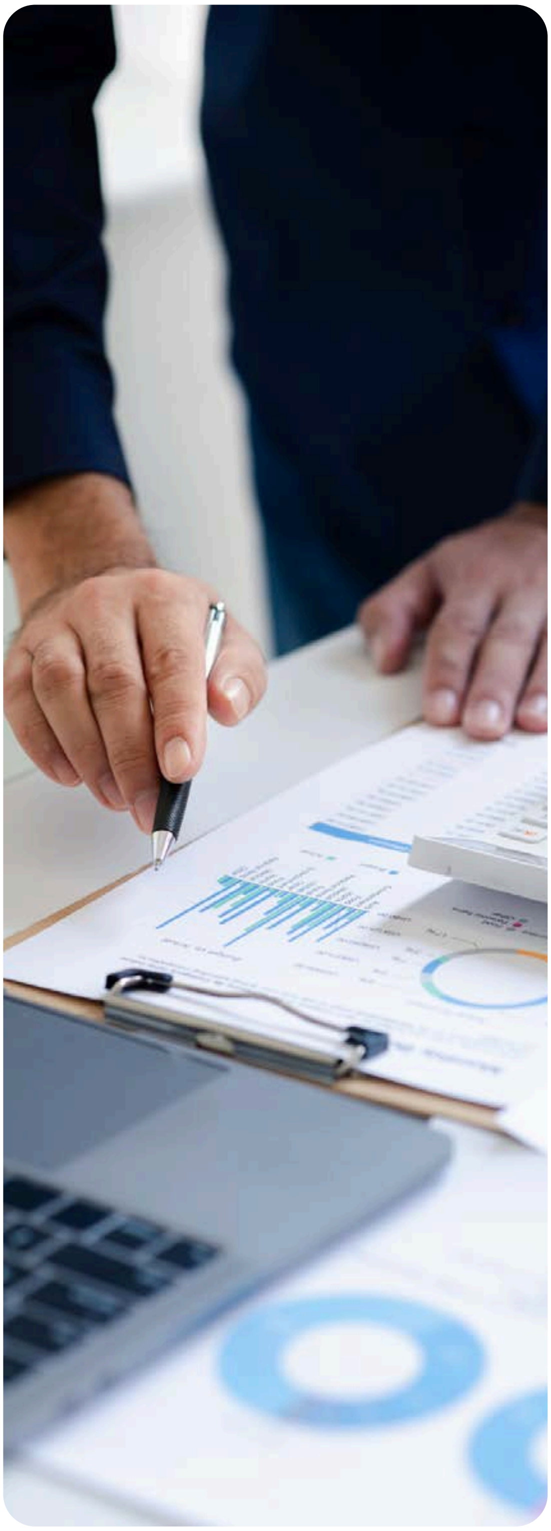
What can you claim as expenses?

To qualify as a legitimate expense without causing tax problems, tax rules dictate that the cost needs to have been incurred wholly, exclusively, and necessarily in doing your job for your limited company. Expenses incurred wholly and exclusively for the purposes of the business can be claimed.

The range of costs that you can claim as allowable expenses is vast and depends on what your company does.Businesses come in all shapes and sizes, delivering a huge range of products and services. General categories include:

- **Operational costs**, which account for most of the huge variation in expense categories and would usually be paid for directly by your company.
- **Financial costs**, including accounting fees, insurance, bank charges and the cost of finance, such as loan interest
- **Sales and marketing costs**, which would also include websites, advertising and digital marketing.
- **Business purchases** that may not be core operational costs, such as laptops and stationery
- **Communications**, including mobile phones (contract must be in the company's name), landline telephones and broadband internet
- **Director and staff costs**, such as travel, subsistence, and accommodation.

We have a separate guide that explains allowable expenses in more detail.



Manage your payroll

With Real Time Information (RTI) and workplace pension Auto-Enrolment (see below), running a compliantand efficient payroll for your company is essential. Even if you have no employees when you first start your business, as both the director and an employee of your limited company, you are obliged to do so as well, and must prepare monthly payslips.

This may sound burdensome, but a full payroll service is part of the package that most accountants provide to limited companies and is certainly within scope of the services that they can offer.

To ensure your payroll is accurate and compliant, your job will be to provide your accountant with the information required tocarry out the calculations. You must ensure the company pays any income tax, National Insurance Contributions (NICs), and Auto-Enrolment pension contributions as required.

What is Real Time Information (RTI)?

HMRC introduced RTI to help understand the tax positions of individual taxpayers in real time, removing the need for large adjustments at the end of the tax year. It only applies to employment income(your salary), meaning reporting of dividends and filing of Corporation and Self-Assessment tax returns aren't affected. Payroll data must be reported to HMRC in real time, on or before the date that employment income is paid.

Workplace pension Auto-Enrolment

Qualifying employees of your company must be enrolled into a workplace pension scheme,by which your employee and your company pay contributions into the employee's pension. Usually referred to as pension Auto-Enrolment, you must choose a pension scheme and make these payments via your payroll.

There is a free pension service available, the Government scheme NEST, which was created to help make Auto-Enrolment simple for all employers. You and your company's individual circumstances may make an alternative scheme more suitable.

Alongside creating and managing a payroll, pension Auto-Enrolment is an area where your adviser can help.

If you are the only director and employee of your company, the Auto – Enrolment rules do not apply.

Extracting funds from the company

As the director and shareholder of a Limited company you have greater flexibility in terms of extracting your remuneration; unlike sole traderships, partnerships and salaried employment, you are in control of when and in what form you take your remuneration.

Paying yourself with salary and dividends

Typically, a director/shareholder in a Limited company would be paid a salary up to the personal allowance and NIC thresholds, so no income tax is payable or employee NIC. (this is dependent on personal circumstances, and you should discuss with an accountant first). A small amount if employers NIC may be payable.

Taking a salary reduces the company's taxable profits and therefore reduces the liability to corporation tax.

You would then look to top up your low salary with dividends, paid out of profits after corporation tax. Dividends attract a lower marginal rate of tax than employment income and do not attract NIC. There is also a £1,000 tax free allowance for dividends (2023/24).

As you can choose when to pay yourself dividends, it is possible to defer or accelerate payments to take full advantage of tax allowances and rate thresholds. In addition, you can also pay yourself tax free pension contributions as part of your overall remuneration strategy.

Remuneration Strategy in Practise

Two owners of limited companies each make £70,000 profit in a year. Here we compare the effect of taking the profits mainly as a salary or via dividends. We have used the tax rates for the year to 5 April 2024, as announced in the Budget. Your accountant may recommend a different level of salary appropriate to your circumstances and your company's Corporation Tax rates

High Salary - Paul

Paul takes the profits as salary

Profit: 70,000
Salary: -62,615
Employers NIC: -7,385

Net profit after salary and NIC: 0

Employees NI: 4,771
PAYE: 12,478

Post tax income
Salary after PAYE & NIC: **45,366**

Total tax paid: 24,634

The company has to pay Employer's NIC on Paul's salary above £9,100 secondary threshold.

Paul's salary and NIC payments are tax deductible for the company, reducing the corporation tax it needs to pay.

Paul has to pay income tax and employee's NIC on his salary.

His total income after tax is £45,366.

High Dividends - Jane

Jane takes a salary of £12,570
Jane takes the rest of the profit as dividend

Profit: 70,000
Salary: -12,570
Employers NIC: -479

Net profit after salary and NIC: 56,951
Corporation tax: -11,342

Net profit after tax = dividends: 45,609
Tax on dividends: 5,881

Post tax income
Salary:12,570
Dividends: 45,609
Less income tax on dividends: -5,881
Total post tax income: **52,298**

Total tax paid: 17,702

Salary is tax deductible and reduces corporation tax. The company pays £11,342 corporation tax. No income tax or employee NIC due on the salary.

Income tax is due on the dividends, totalling £5,881.

Jane's total take home is £52.298, some £7,000 by taking the money as dividends.

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Directors Loan

Being a limited company director and owner means you benefit from taking your remuneration more flexibly than if you are a sole trader, in a partnership or employed.

Loans to directors from a company are fully permitted under company law and are generally quite common in owner-managed businesses. However, due consideration should be given before taking such a loan as they are not without consequence.

Depending on the loan terms they can give rise to both company and personal tax liabilities and they may also lead to directors being personally exposed to financial risk if the business experiences financial difficulties.

Section 455 tax

Any amount loaned to a director which remains outstanding at the company's financial year end, gives rise to a Section 455 (S455) tax liability, levied on the company. This is payable alongside the company's Corporation Tax liability 9 months after the year-end and is charged at a rate of 33.75% of the outstanding loan balance.

This S455 tax is a payment on account and is fully repayable by HMRC to the company as the directors' loan reduces. Any refund of S455 tax can be claimed no earlier than 9 months after the year end in which the loan is reduced.

No S455 tax on a directors' loan balance will be payable if the loan is fully repaid within 9 months of the year end in which the loan is made.

Benefit in kind - Interest free loans

Any loan exceeding £10,000 made to any company employee, including directors, will give rise to a taxable benefit in kind if interest is not charged at an appropriate rate. HMRC set an official interest rate periodically and this rate should be compared to that charged on any loan made by the company to an employee.

Any interest amounts charged below the official rate are reportable on a Form P11D and taxable on the individual employee. The company also must pay Class 1A NIC on any such interest benefits.

Finally, it should be noted that directors' loans are one of the most common circumstances where the limited liability provided by running your business through a limited company may be overridden. The existence of the loan means that you are a debtor of the company like any other and should the business experience financial difficulties, creditors may force the loan to be called in. You are therefore personally exposed to an amount equal to the outstanding loan balance.

Secure your financial future

Broadley Accounting have supported many sole traders through their journey from start up to thriving business owners. Whenever you are unsure, need a little support or just a friendly ear we are here.

We can offer ad hoc advice, as and when you need it through "Ask the Accountant "calls or Strategic Meet ups, or we can offer ongoing support and advice at a fixed monthly fee. Get in touch today and book a call!

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This guide has been written to provide an overview of the common tax allowable expenses. The rules are complex and subject to change, so always make sure you check with us for the latest information and guidance.

Secure your financial future

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