

WATSON BUCKLE

CHARTERED ACCOUNTANTS

Guide to Forming and Running a
Limited Company

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The first steps

Welcome

Firstly, congratulations on the formation of your new company. While running a business can be challenging and frustrating, it can also be highly rewarding and fun.

However, nobody said it was easy. That's why the team at Watson Buckle is pleased to provide this guide to forming and running a limited company, which aims to take you through the main issues you need to think about.

If you need any more information or advice, then please don't hesitate to contact us on **01274 516700** or visit our website www.watsonbuckle.co.uk. After all, we've been helping people just like you achieve success for more than a Century.

Company foundations

Before we proceed with how to run your business, it is vital to check you have the right foundations in place.

The company must be registered with Companies House, and you need to provide details of the registered office (its legal address) and the company directors. Now is the time to check that these details are correct.

While small companies no longer need to appoint a company secretary, if you have chosen one, then their details will also need to be registered with Companies House.

This is also a good time to ensure that the shares in your company have been allocated to the relevant shareholders according to your wishes.

Finances

Overview

Maintaining a healthy cash flow is the lifeblood of any business.

In this section, we will examine what you need to look for when choosing a business bank account, how to invoice your customers for payment and the taxes you will also need to pay.

We also consider the benefits of employing an accountant to look after your financial affairs, before concluding with a look at paying dividends to your shareholders and the expenses you can claim.

Bank accounts

Choosing a separate business bank account is one of the primary actions you need to take after forming your company. But with a number of financial institutions competing for your custom, you will need to consider:

- **Costs:** How much does it cost to have the account and process transactions? What level of service will you receive for that cost?
- **Interest:** What level of interest will you receive on your account?
- **Internet banking:** Many new business owners need to deal with finances in the evening or at weekends. Can you access your account whenever you need to? This will become even more important as HM Revenue & Customs moves towards compulsory online payments.
- **Specialists:** Does the bank have a dedicated team for small business customers? Do they offer any introductory deals for new businesses?

Invoices

Now that you have your bank account, you will want to receive payments to deposit into it. However, before your customers can pay you, you will need to issue them with an invoice.

Your invoice needs to be dated and contain your company's name, address and registration number, as well as the VAT and invoice number and an itemised breakdown of the charges.

If you choose to include expenses in your invoice, remember to add VAT, even if the expense itself does not have any VAT.

Taxes - Overview

Unfortunately, as well as payments into your bank account, you will also need to pay taxes out.

It is important to pay the correct amount of tax on time to avoid having to pay interest and penalties. To help you with this, we have included a timetable of the various dates you will need to remember at the end of this guide.

We will now look in more detail at the tax you will be liable to pay.

PAYE/NIC

If you pay a salary, then you will need to set up a Pay As You Earn (PAYE) scheme with HM Revenue & Customs (HMRC).

You will then need to deduct income tax and NICs from the salaries paid, and send the deducted amount to HMRC by 19th of each month – or the 22nd if you choose to pay electronically.

After the end of the tax year you must send HMRC an Employer Annual Return and report the expenses or benefits you've provided - making a one-off payment of NICs on the value of some of them.

VAT

Value Added Tax (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.

You will need to register for VAT if the annual turnover of your company will be £70,000 or more, although there are often business benefits to registering if your turnover is below this. For example, some business may be better off operating within the flat rate VAT scheme, as long as their annual turnover is less than £150,000.

You will need to complete a VAT return and make any payments at the end of each VAT period – usually every three months.

Corporation tax

Corporation Tax (CT) is paid by limited companies on their profits. Once you have completed the 'Corporation Tax – New Company Details' form sent to your registered office, you will be register to pay CT.

For profits up to £300,000, CT is paid at the small companies' rate of 21 percent, and for profits over £1.5 million a main rate of 28 percent is applied. Companies making between £300,001 and £1.5 million receive marginal rate relief, which eases the transition between the lower and higher rates.

You will need to complete a CT Return every year with your annual accounts and make any payments nine months and one day after the end of your company's accounting period.

Tax returns

Each company director will need to complete a personal tax return each year, detailing all of their income and any allowable deductions.

For tax returns issued by the previous 31st October, payment must be made by the following 31st January. Returns issued after 31st October must be completed and returned to HM Revenue & Customs (HMRC) within three months. As a rule, you then have 30 days from the date on the request for payment.

If you have not received your tax return, you should contact HMRC to request one.

IR35

IR35 legislation was introduced in April 2000 to increase the income tax and national insurance contributions paid by people who set up their own company instead of working as employee.

The legislation applies when services are supplied to a client through a third party, and the arrangement is such that without the third party, the individual would be an employee of the client.

For example, when your client contracts with your company instead of you directly, the company can be seen as a third party, and you need to ask that if your company didn't exist, would your relationship with the client be seen to be one of direct employment or would you be considered self-employed? In the first case, IR35 would apply.

As there is no statutory definition of employment, please contact Watson Buckle on **01274 516700** if you need to clarify your position.

Accountant

Due to the complexity of business taxation, it would be wise for anyone starting out in business to hire an accountant. Finding a reliable accountant will leave you with more time to build your business, instead of worrying about all the paperwork.

When choosing an accountant you will need to consider:

- **Qualifications:** Your accountant should be fully qualified – so look for ACA or ACCA after their name.
- **Relevant expertise:** Ask them for proof of their ability and experience in managing the financial affairs of businesses of the same size and sector as yours.
- **Communication:** Choose an accountant you connect with and will feel comfortable talking to about your finances.
- **Fees:** Accountants' fees can vary dramatically and you also need to consider whether you will be paying a fixed monthly fee or by the hour.
- **Services:** Find out what services the accountant offers and whether your relationship will be a year-round one.

Why Watson Buckle?

At Watson Buckle, we provide a bespoke high quality service that grows around your needs, helping you to succeed. Our range of experience and expert knowledge ensures we will always have the resources to match your account with the right member of our team.

In addition to helping you evaluate your business ideas in a constructive manner, we can also assist with:

- Deciding on the most suitable structure for your business – sole trader, partnership, limited liability partnership or limited company
- Preparing a business plan, cash flow projections, budgets and trading forecasts
- Assessing your financial requirements, advising on the best sources of finance and drawing up the necessary proposals
- Establishing a good working relationship with your bank
- Dealing with company secretarial issues
- Setting up a record-keeping system for your internal use and for complying with statutory requirements

Dividends

Dividends are payments made to shareholders from the company's profits. If your company has not made a profit, then it can not pay a dividend for that period.

As the company has already, or is about to, pay tax on the money, tax credits are paid to offset any income tax due on the dividend. The tax credit represents 10 percent of the final dividend income.

As the basic rate of income tax on dividends is also 10 percent, the tax credit cancels out the income tax due for these taxpayers. If your taxable income is above the £37,400 higher rate tax limit/threshold, the income tax rate increases to 32.5 percent, making you liable for an extra charge.

From 2010-11, there will be an additional tax band for incomes over £150,000. In these cases, the rate of income tax on dividends will be 42.5 percent.

Expenses

Expenses are expenditure that you need to incur to run your business. Any expenses claimed must be wholly and exclusively for the business. Some of the expenses you may claim for your business include:

- **Director's salary:** a salary paid to the fee earner for the company counts as an allowable expense, together with the NICs.
- **Salaries for Company Secretary/Partner:** you can pay the amount for secretarial support, but this will generally not amount to very much.
- **Business travel:** this covers both journeys made during the performance of your duties and to and from a temporary place of work. Both mileage and public transport are eligible, although overuse of taxis will not be permitted.
- **Accommodation whilst away on business:** this covers the full cost of staying in a hotel or guest house, as well as flats if the rent does not exceed the cost of reasonable hotel accommodation.
- **Subsistence whilst away on business:** you can claim for breakfast and an evening meal, as well as a small allowance of £5 each night to cover items such as laundry and newspapers.
- **Mobile costs:** one mobile phone, the line rental and the cost of private calls paid by the employer are exempt from any tax charge.
- **Internet connection:** the cost of Internet access at your home can be claimed as long as there is no separate billing of work and private connections, and private usage is limited.
- **Business computer equipment and software:** if you require a computer or laptop to carry out your duties, you can claim for the cost of one. Under the VAT Flat Rate Scheme, you can only reclaim any VAT if the cost is over £2,000.
- **Home office costs:** it is easiest to claim the flat annual allowance of £156 if you use part of your house as an office. No receipts are required.
- **Employer pension contributions:** these should be excepted, but only as part of an overall package split between salary and pension contributions.
- **Training costs:** these can be claimed for upgrading or enhancing your skills, but training for new skills should be claimed as a capital allowance. The travel and hotel costs associated with attending are also allowed.
- **Medical insurance:** this will be taxed as a benefit in kind, so you need to pay NICs of 12.8 percent on the cost.
- **Christmas party/annual event:** an annual event, such as a Christmas party, is an allowable expense as long as the total cost is not more than £150 per person.
- **Miscellaneous items:** Other costs that can be paid by your company include:
 - Accountancy fees
 - Postage and stationary
 - Technical books and publications
 - Subscriptions to approved professional bodies
 - Bank charges

Employment

Overview

There are a number of issues to consider as an employer – even if you are the only employee!

In this section, we take a look at how to decide on the level of salary to pay yourself, and the insurances you need to consider to protect your business.

However, it is important to remember that if things go wrong, insurance will probably only cover part of the costs. Hidden costs in terms of lost productivity and possible fines means you should also implement good health and safety procedures to avoid accidents occurring.

Salary

When deciding what level of salary to pay yourself, there are two limits that you need to consider. The first is your NIC free allowance (which also falls within the tax free allowance) of £5,715 and the second is the National Minimum Wage (NMW), which is currently £5.80 per hour (£5.93 from October 2010).

Based on a 37.5 hour week, NMW would provide an annual salary of £11,310, which is £5,595 more than the annual NIC free allowance. However, this would also result in extra tax liability, which is not very welcome!

As HM Revenue & Customs would not enforce NMW for directors, there seems a case for a salary of just £5,715.

However, if you have a contract between you and your company – even an implied one – then NMW would apply, and much of a director's work generates fees for the company, which would require payment to be made at NMW levels.

Insurance

There are three types of insurance that you need to consider to protect your business:

- **Employers' Liability Insurance:** this covers you against claims made by employees for injuries or illnesses they've suffered when working for you. You must ensure your certificate is displayed or available electronically. This cover is not legally required if you are the only employee and own 50 percent or more of the shares.
- **Public Liability Insurance:** this covers the damages and legal costs resulting from injury, death or damage to property caused to members of the public, such as visitors, by any of your actions.
- **Professional Indemnity Insurance:** this protects your business against claims made by dissatisfied customers if you have made a mistake or been negligent in some of the services you provide.

There are other insurances you should also consider, including directors' insurance, motor insurance, equipment insurance, contents insurance and cover for legal expenses. If you use your own vehicle for the business, make sure your insurer is aware of this.

Reference material

Overview

We conclude this guide with a timetable of the various dates you should be aware of and the forms you might need to complete during your business's life cycle.

Timetable

January

19th January: payment of PAYE/NIC deductions for the quarter ending 5th January.

30th January: VAT Returns and payment for quarter ending 31st December.

April

19th April: payment of PAYE/NIC deductions for the quarter ending 5th April.

30th April: VAT Returns and payment for quarter ending 31st March.

May

19th May: P35 and P14s to reach HMRC after the end of each tax year.

July

6th July: P11d and P11d(b) to reach HMRC after the end of each tax year.

19th July: payment of PAYE/NIC deductions for the quarter ending 5th July.

19th July: payment of Class IA NICs on certain benefits in kind, such as company cars.

31st July: VAT Returns and payment for quarter ending 30th June.

October

19th October: payment of PAYE/NIC deductions for the quarter ending 5th October.

31st October: VAT Returns and payment for quarter ending 30th September.

Company specific

Within 9 months of year end: Abbreviated Annual Accounts to be filed at Companies House and payment of Corporation Tax.

Within 12 months of year end: Full Annual Accounts and Corporation Tax Return to be sent to HMRC.

Anniversary of incorporation: Annual Return to be prepared, and is due 28 days later.

Relevant forms

Companies House

AA01	Change your year end date
AD01	Change your registered office
AP01	Appoint a new director
AP02	Appoint a new corporate director
AP03	Appoint a new secretary
AP04	Appoint a new corporate secretary
TM01	Remove a director
TM02	Remove a secretary
CH01	Change the details of a serving director
CH02	Change the details of a serving corporate director
CH03	Change the details of a serving secretary
CH04	Change the details of a serving corporate secretary
DS01	Strike a company off the register
SH01	Issue additional shares in your company

HMRC

64-8	Authorise HMRC to provide company details to your accountant
CT41G	New Company Enquiry form shortly after the company has been formed
P11d	Annual statement of benefits and expenses
P11d(b)	Annual company declaration that P11ds have been submitted
CT600	Annual Corporation Tax Return
P14	Annual statement for each employee
P35	Annual summary of all P14s
P45	Leaving statement of payments and tax for an employee
P46	Notice to be completed if you do not have a P45
P60	Annual statement for each employee from the employer
VAT1	VAT Registration application
VAT7	VAT Deregistration
VAT100	Quarterly VAT Return
VAT600	VAT Flat Rate application

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