



# BECOMING A LIMITED COMPANY IN THE UK

**WHAT IS A PRIVATE LIMITED COMPANY**

A private limited company is a legal entity that you can set up to run your business. It's responsible in its own right for everything it does and its finances are separate from your personal finances.

**DIRECTORS/SHAREHOLDERS**

The directors run a limited company and the shareholders (members) own it. You only require one member and one director, who can be the same person.

**COMPANY SECRETARY**

The position of company secretary (not compulsory) is to ensure that all the statutory procedures are carried out and complied with. (the duties of the company secretary must be performed by the company director if there is no company secretary).

**COMPANY INCORPORATION**

You first need to choose a company name and see if it is available or you can set up an "off the shelf" (ready-made) company.

You will then need to sort out shareholders, directors, a company bank account, and VAT/PAYE registration (please see below) where applicable.

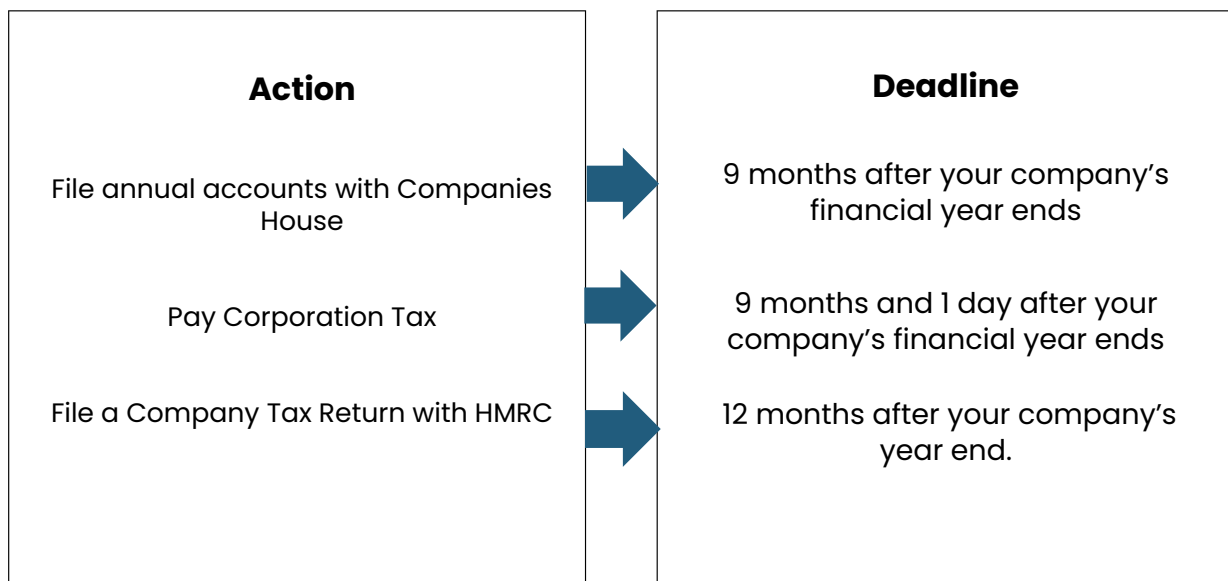
Once your company has been incorporated you can trade with it.

**REGISTERED OFFICE**

A Registered office is an official address for the limited company that's published on Companies House, where legal documents and letters from Companies House (and e.g HMRC, courts etc) can be served. It does not have to be the trading address, and it can be your home, your accountant's office or at any address that suits you.

**COMPANY COMPLIANCE**

At the end of its financial year, your Limited company must action the following:



**CONFIRMATION STATEMENT**

You must send Companies House a confirmation statement every year which provides a snapshot of general information about your company.

## PERMISSION TO TRADE

Depending on your trade (for example a restaurant) you may need a license or permission from your local authority. Your qualifications and business premises may be inspected to ensure you comply with regulations.

## PREMISES

You may need permission or separate insurance to run a home business, and you'll need to check if you have to pay business rates for the part of your home used for business.

This mainly depends on whether the business area of your home is also used for domestic purposes. If you simply work on a computer in a bedroom, for example, you will probably not have to pay business rates.

If you are trading from a shop, office, warehouse or factory, business rates will apply. If in doubt you should contact your local authority for confirmation.

## CORPORATION TAX

The company will pay corporation tax of 19% on its profits below £50,000 (small profit rate) and 25% for taxable profits above £250,000 (the main rate).

For profits between these thresholds the main rate of tax will taper. For example, on profits over £50,000 the 25% main rate of tax will apply and the company is entitled to claim what is called marginal relief which in effect reduces tax accordingly.

## VAT

The company must register for VAT and Making Tax Digital (MTD) with HMRC if it has or expects to exceed the annual turnover threshold of £90,000 in a rolling twelve-month period.

If VAT registered, VAT returns (normally quarterly) must be filed with HMRC depending on the VAT scheme the company decides to operate.

## PAYE

If you want the company to pay you/an employee a salary the company must register as an employer with HMRC and operate a PAYE (Pay as You Earn) payroll scheme and you'll need to submit information to HMRC in real-time, every time you pay your employees.

The company must declare and deduct Income Tax and National Insurance contributions from

salary payments along with employers' National Insurance contributions and pay these to HMRC.

## PENSION

In running your payroll, you will need to consider a work place pension form your staff.

## CORPORATE COMPLIANCE

When using formal company correspondence (business letters, order forms, email and your website) - you must include the registered office address, VAT number and company registered number.

## INSURANCE

Depending on the business and how you trade, you may be required by law to take out certain types of insurance.

- Public Liability - damage against property or persons that you might encounter during your work.
- Professional indemnity - if your client suffers a financial loss through your work for them.
- Employers liability - a legal requirement and protects if any member of your staff is taken ill, suffers injury or death and this is deemed to be as a result of their work.
- You may want to consider other insurances such as premises and contents, business interruption, tax enquiry and personal accident or sickness cover.

## KEEPING RECORDS FOR YOUR BUSINESS

You must keep accurate and detailed records for your business which must include a record of all your sales and purchases/expenses (please keep all business receipts for at least 6 years from the end of the last company financial year they relate to). For VAT records we suggest 7 years.

## IR35

IR35 is the United Kingdom tax legislation designed to tax "disguised employment" at a rate similar to employment and is viewed on a contract to contract basis and whether you may or may not be considered an employee of the end client.

## TAKING MONEY OUT OF A LIMITED COMPANY

The director may receive a salary under PAYE, expenses and benefits, and the shareholders are entitled to draw out profits as dividends where allowed by the regulations.

## DIVIDENDS

A dividend (paid according to shareholding) is a payment a company can make to shareholders if it has made enough profit after corporation tax has been accounted for. The company must not pay out more in dividends than its available profits from current and previous financial years.

## HOW DIVIDENDS ARE TAXED PERSONALLY

As a director/shareholder, you would normally meet the criteria to file an annual personal tax return (Self-Assessment) and you must declare all your dividends received in the period 6th April to 5th April.

The amount of tax you pay on dividends depends on your taxable income and the marginal rate of tax the dividends fall into.

The first £500 of dividend income in the 24/25 tax year will be tax-free.

Dividends taken above that will be taxed at:

- 8.75 % for a basic-rate taxpayer
- 33.75% for a higher-rate taxpayer
- 39.35 % for an additional-rate taxpayer (for incomes over £125,140).

In effect, there will be a dividend tax charge of £87.50 (basic rate) and £333.75 (higher rate) for every £1,000 dividend you take, that falls into these marginal rates of tax after taking into account the £500 dividend tax free allowance.

## DIRECTORS' LOANS

If you take more money out of a company than you have put in and it is not salary or dividend it's called a directors' loan.

There are some detailed tax rules about how director's loans are handled and your personal and company tax responsibilities depend on whether the director's loan account is overdrawn (you owe the company) or in credit (the company owes you).

## SUMMARY

Please note the above are guidance notes and just a start in your new venture. As you continue in business you may have other legal and tax issues to consider.