

# A BRIEF BEGINNERS GUIDE TO SETTING UP A LIMITED COMPANY



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## What's the significance of a director in a limited company?

Once you've created your limited company, it is a legal entity which exists separate to you, with its own responsibilities and accountability. The first step is to appoint yourself director.

As the director you are responsible for managing the company within the parameters laid out in the Articles of Association and the law.

## Appointing Shareholders

Shareholders are the owners of the company and have certain rights, such as the ability to sanction changes.

This isn't an issue for you if you are the sole shareholder. A limited company is owned by its shareholders and run by its directors. If you're starting your own company then this means you can be both a director and a shareholder.

## Do you need a Company secretary ?

Small limited companies don't necessarily need to have a company secretary. Before you get started with your limited company, make sure you have:

- The shareholders and directors you want.
- The registered address for your company doesn't have to be where you work from but will be where the legal correspondence from HMRC and Companies House is to be sent.
- Articles of Association & Shareholder Agreement.
- Get a business bank account

## Companies House

You will be required to submit your annual accounts to company's house which **Accountancy & Book-keeping business support Ltd** can do for you as your agent.

## Bank

You are legally obligated to set up a company owned bank account regardless of whether you're the sole shareholder or sole director.

The company exists as a separate legal entity, it has its own legal rights and obligations, and any profits or losses incurred belong to the company.

A company account is not your personal account. You must keep your personal finances separate and make sure that you maintain a clear and transparent record of every transaction.

## Tax

A limited company has several tax obligations that you may not be aware of. **Accountancy & Book-keeping business support Ltd** can prepare and submit your various tax returns for your company and register your company for any tax that you may be liable for.

## VAT

Value Added Tax is an additional sum which is added to the price of most goods, services and invoices. Companies are not automatically registered for VAT and will not need to register or pay VAT unless their annual turnover exceeds a certain threshold.

The VAT registration and deregistration thresholds will not change for 2 years from 1 April 2020. The taxable turnover threshold which determines whether a person must be registered for VAT, will remain at £85,000. The taxable turnover threshold which determines whether a person may apply for deregistration will remain at £83,000.

## Corporation Tax

You will also need to register for Corporation Tax, which we can do for you, but will usually be conducted through your company's formation process. This tax is applied to your company's profits after you pay your employees' salaries but before you can withdraw dividends as a shareholder.

All limited companies are required to pay tax on their profits and must submit an annual CT600. The initial tax return after starting your company needs to be filed within 12 months of your company's first year end. Payment must be then made within nine months and one day of your company's year-end.

## Personal Income Tax

In addition to the tax your company is liable to pay, you must personally pay tax on any income you receive, usually in the form of dividends and salary from your company.

If completing your return online, you are legally required to complete a Self-Assessment by the 31st January following the tax year in question. If posting your Self-Assessment, you must submit it by 31st October in the same year to the tax year in question. **Accountancy & Book-keeping business support Ltd** can submit your self- assessment as your agent.

You will need to register with HMRC and notify them that you are liable to personal tax. You can do this on their website, or your agent can do it for you.

## Insurance

Insurance can offer peace of mind and security to a company.

### *Employers Liability Insurance*

A compulsory insurance if you are employing people, which will protect you against claims by an employee for injury etc. If you are the sole employee of the company and own over 50% of the shares, then you are not required to have this cover.

### *Public Liability*

To insure you against death or damage to third parties and their property by your actions. Although it's not compulsory, you have a duty to protect anyone who might be affected by the provision of your services.

### *Professional Indemnity*

This insures you against any claims made against your work, for example through negligence.

## Invoicing

To receive payment for your company's services you need to raise an invoice and issue it to your clients.

When creating an invoice there are legal guidelines you must adhere to and certain requirements you must include to validate the invoice.

## Expenses

One of the foremost questions asked by new companies is what they are entitled to claim back. We can't provide a complete overview of every possible expense because the list is so extensive.

What we can do is provide you with the parameters within which HMRC entitle you to claim and the most common expenses you're likely to encounter.

**Accountancy & Book-keeping business support Ltd** offer a complete book-keeping service which covers all your requirements.

## Salary & dividends

Your business profits are deemed to be the property of the company. If you intend on withdrawing an income from the company this must be done through either dividend if you're the owner, or a salary if you're the employee.

As both an owner (shareholder) and employee (director) of the company you can generate the most tax efficient way to receive an income by splitting your payments between dividend and salary, as follows:

## Salary

If your limited company falls outside IR35 legislation, you can pay yourself a salary at either, the level below the NIC & Tax-free thresholds, or in accordance with the national minimum wage.

One-man companies. The most tax efficient salary for your company to pay you will vary depending on the tax year, as NIC and income tax bands change every year to adjust for inflation. [test rates here](#).

## Dividends

This is the money you may withdraw from the company's post-tax profits as a shareholder. Make sure your company has the profits available to withdraw dividends otherwise money paid will be recorded as a director's loan.

Dividends avoid National Insurance taxes but are subject to Corporation Tax. Additionally, until your income exceeds the higher rate tax threshold dividends are taxed at a lower rate. However, the tax man has decided that it would be unfair to tax this money twice, so you can claim a tax credit on this amount.

## PAYE/National Insurance

If you intend on paying a salary, then you are required to set up a Pay as You Earn scheme (PAYE) with HM Revenue & Customs (HMRC) and also deduct any National Insurance liabilities. Failure to do this properly or within the given time

parameters can result in financial penalties, so it's vital to get this set up correctly from the outset.

If you're unsure what PAYE is exactly, it's a compulsory method of tax collection which you must deduct from staff salaries. It's applied to anyone earning an annual salary of more than the Employee National Insurance Threshold.

HMRC need to be notified every time you pay an employee; this will be taken care of by our software which is RTI compliant.

## IR35

IR35 legislation acts as a barrier to prevent permanent employees disguising themselves as self-employed or as limited company's in order to receive the lower tax benefits.

It's simply in place to determine whether you are employed by your client in the role of an employee, or if you maintain your position as a contractor whilst providing your services to the client.

## GDPR

The collection and use of personal data by online businesses in the UK must comply with the UK data protection laws and the GDPR. This policy is designed to allow the website operator to comply with the fair processing obligation and to obtain the user's' consent to that processing as required by law.

Even if you legally don't need to have a Privacy Policy, it's a good idea to include one anyway. Simply state that you don't collect or use personal information and provide a link to the agreement in your website footer, if you have one. Your users will appreciate your transparency.

## Website

You might want to make an internet presence advertising your new business. We can recommend web designers who provide an excellent service for a reasonable price.

## Conclusion

All this might seem daunting, **Accountancy & Book-keeping business support Ltd** offers a start-up company formation service if you wish to set up your own Limited company.

Please note this is a brief guide on starting your limited company and there is plenty of information available if you need further details on setting up a limited company.

Some useful Links:

[www.abbsltd.co.uk](http://www.abbsltd.co.uk) - Free 1<sup>st</sup> Consultation

[www.gov.uk/government/organisations/companies-house](http://www.gov.uk/government/organisations/companies-house)

[www.northants-chamber.co.uk](http://www.northants-chamber.co.uk)

[www.ico.org.uk](http://www.ico.org.uk)

