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# Limited Company Guide

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## Limited Company Guide

### What is a limited company?

A limited company is a company in which the liability of the members or subscribers of the company is limited to what they have invested or guaranteed to the company. In other words, the owners of a limited company are not personally liable for the debts of the company. Small businesses generally choose to trade through limited companies as they can be a lot more tax efficient compared to trading as a sole trader or partnership. It does however need to be structured in the right way to take advantage of the savings available.

### Incorporating (forming) a limited company

Forming your new limited company is straight forward but first you will need to decide who the directors are going to be and who the shareholders will be. Directors are the people who run the company and the shareholders are the people who own the company. In many small limited companies often the director(s) and shareholder(s) will be the same person. Once this is decided and you have chosen a name then you can approach a formations company.

You will give them all of the necessary details and payment for their fee and they will register the company with Companies House. We can complete company formations on behalf of our clients at no extra cost as long as they sign up with us for an on-going service. Please contact us if you would like further details about this.

### What is a Unique Tax Reference number (Company Reference Number)?

A Unique Tax Reference number or 'UTR', is a number that is assigned to your company by HMRC. This will be your reference number that should be used when corresponding with HMRC. Once the company is formed HMRC will automatically assign it with a UTR number and confirm it in writing within 28 days.

### What is the process for completing my accounts and returns?

You will need to keep your paperwork for all of your business transactions. This will form the basis of the bookkeeping.

Once the bookkeeping has been completed (i.e. entering the paperwork on to a spreadsheet/software package) up to the companies financial year end, then it can be sent to us. We will use the spreadsheet/figures from the software package to produce a set of accounts and your corporation tax return.

We will send a copy of your accounts to you once completed for you to approve. Once approved, we will submit your accounts to Companies House along with your corporation tax return. Your accounts are due no later than 9 months from the date of your year end so it is advisable to send your records to us as early as possible.

### What is the Annual Return for Companies House?

The annual return for Companies House is a return that notifies Companies House of any changes to the company. These changes include, appointments/resignations of directors, change of shareholdings, change of registered address etc. The submission of your Annual Return is included in your monthly fee.

### What paperwork do I need to keep?

If we are completing your bookkeeping then you will need to provide all of the following:

**Sales Invoices:** These are the invoices you send to customers for products you have sold or services you have provided and act as a representation of the income you have received.

**Purchase Invoices:** These are invoices you have been issued by suppliers.

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### **Bank statements/ credit card statements:**

Any statements which show transactions relating to the business should be provided to your accountant.

**Receipts:** Any receipts you receive for expenses relating to the business should be maintained and supplied to your accountant. For example, fuel receipts.

**Cheque Book stubs:** Cheque books that contain details of cheques used to pay for things relating to the business should be kept and given to your accountant with the rest of your records.

**Hire purchase/loan agreements:** If you purchase anything of a high value for your business or you take out a loan for your business you should hold on to the agreements and include them in the paperwork you give us.

We do however encourage our clients to keep their own records, with our ongoing support, as we believe it is beneficial for you to have a good understanding about how much profit your business is making throughout the year and not just once your accounts are completed. If you are more comfortable having us do the bookkeeping for you, so you can concentrate on running the business, we are more than happy to do so. Our accountants are always available to answer any questions you might have such as, what paperwork to keep hold of. We will be sure to contact you regarding missing expenses or incomplete records.

### **What is bookkeeping?**

Bookkeeping is a term used to describe the process whereby a record is kept of transactions which have taken place within a business. Such as, income received and money spent.

Maintaining a record of business transactions is beneficial for many reasons:

1) To comply with the legal requirement companies have to keep accurate records.

- 2) You can easily see how much money you are owed and how much money you owe.
- 3) Your records indicate how well the business is doing and show areas where money could be saved.

In addition, HMRC may want to check that the corporation tax return and accounts submitted for your company is accurate. To do this, HMRC may ask to see the records from which your corporation tax return is based. If you cannot provide these records you may have to pay a penalty.

Business records must be kept for at least 6 years.

### **How do I do my own bookkeeping?**

If you are doing your own bookkeeping you do need to ensure that you are accurate with the data you input and keep evidence of the income and expenditure, for example sales invoices, purchase invoices and receipts. This is important as HMRC can choose people at random to investigate and if you are chosen, they will expect to see this paperwork.

We highly recommend that you do not leave all of your bookkeeping until the last minute. It is understandable that, at the end of a long day at work, the thought of sitting down and inputting the day's figures is unappealing to say the least. However, day's, week's or even month's of data entry will not take more than a few hours. Whereas sifting through twelve months worth of old paperwork will be extremely time consuming, tedious and confusing, especially if you're under pressure from the deadlines.

Bookkeeping can be done using various formats. The most common tool used by small businesses is either a spreadsheet or a software package such as SAGE. The spreadsheet needs to include details of income and expenditure along with details of any assets that have been acquired and liabilities that have been incurred.

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We can provide our clients with spreadsheets if they keep relatively basic records or can recommend useful software packages if they keep more detailed records. In addition, we offer ongoing support so if you have any queries along the way we are always here to help.

### What expenses can I claim?

Most business expenses are allowable. There are many expenses that can be claimed by a business and they can vary depending on the nature of the business. The following is a list of the most common types of expenditure that companies can claim:

**Motor Expenses:** If the company has a commercial vehicle you can claim all costs of that vehicle including insurance, road tax, fuel, vehicle lease/hire, vehicle wash and repairs. Alternatively business mileage can be recorded and you can claim a set amount per mile traveled.

If your vehicle is a car and used for personal and business use then it is normally better to record the business mileage that you travel and charge the company accordingly. By operating in this way you avoid a benefit in kind situation occurring which would result in personal tax being owed to HMRC.

**HP Interest:** When paying for a vehicle (on which you are not claiming mileage) or equipment on hire purchase you are able to claim the interest payable as an expense. Most clients will leave this for us to calculate.

**Materials:** Materials or goods bought.

**Use of home as office/premises costs:** If you have premises you are able to claim the rent and rates as business expenditure. HMRC also give people an allowance for using their own home as an office. If you do not supply us with this figure, we will incorporate it into your accounts.

**Repairs & renewals:** This is for general repairs to for your business and small renewals that would not be classed as capital expenditure.

**Wages:** The amount that you pay your employees.

**Bank Charges:** Any business bank charges you may have incurred.

**Telephone:** Any business landline or mobile phone costs.

**Internet Costs:** This can be website maintenance costs, your broadband provider costs etc.

**Postage & Stationery:** Any business stationery can be included.

**Advertising:** This is allowable whether it be in a magazine, on a website or a leaflet drop.

**Membership Fees:** Any trade associations or networking fees.

**Work Clothing:** Clothing can be uniforms, protective boots or T-shirts you have had printed etc.

**Training:** Study courses and staff training etc. Training costs in order to qualify for your profession cannot be claimed for.

**Subsistence:** If you work away from home occasionally then you can claim for your food etc.

**Professional Fees:** Accountancy fee, solicitors fees etc.

**Business Insurance:** Payments made for liability insurance/professional indemnity insurance.

**Sundry Expenses:** Sundry expenses are small expenses you may incur.

**Capital Expenditure:** This is for any large items purchased. For example, a new vehicle or computer. These amounts will then be depreciated and capital allowances claimed.

It is also possible to introduce set up costs and personal assets into the business. For example if you incurred expenses prior to the date of trading then you can include these expenses. Personal assets such as tools or a computer etc can be introduced by you into the business at the market value at the date of introduction.

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The value can usually be estimated by you but it must be a fair value i.e. what you could sell it for.

### Bank Account:

It is not a legal requirement to have a limited company bank account. However we strongly recommend that you do open a limited business bank account solely for your business. This will keep your business and personal transactions separate and will mean that your bookkeeping will be more straight forward. Please contact us if you would like recommendations on which bank to use.

### Insurances:

When you start a business you must make sure you have the correct insurances in place. You will need employer's liability insurance if you have any employees, public liability insurance in case a customer or member of the public suffers loss or injury as a result of your business activity. If you sell your skills or knowledge then it would be a good idea to have professional indemnity insurance. This insurance protects your business against claims for damage or loss made by a customer or third party if you make mistakes or are negligent with some of the services you provided.

### How do I take money from the company?

If the company is an owner operated limited company (i.e. the shareholders and directors are the same people) then it is normally more tax efficient for the director(s) to take a small salary up to the national insurance threshold and the remainder of their withdrawals as dividends. By structuring the withdrawals in this way the directors/shareholders do not pay income tax or NI (although contributions are still made). The only tax payable is corporation tax on the profits of the company.

If the company directors and shareholders are not the same people or the shareholdings are unequal then wages should be paid as per the hours worked in the company so that the distribution of funds is fair.

### What is a dividend?

A dividend is a payment from company profits (after corporation tax) to its shareholder(s). To declare a dividend, a dividend voucher must be completed. Once the dividend voucher has been completed, the money can be transferred from the business bank account to the shareholders personal bank account. We can issue our clients with a template to use.

### What is the financial year?

The financial year is used as a time period in which the end of year accounts and returns are based. The tax return and tax due will be based on the profits the company produced during their financial year. A limited company will usually have its financial year set according to the date it was incorporated (although the date can be changed).

### How much tax will my company pay?

Corporation tax for small companies is currently 20% in the UK. This means that the company profits for the financial year will be taxed at 20%.

### What are the deadlines and penalties for late submissions?

Your abbreviated accounts to Companies House are due no later than 9 months after your financial year end. Failure to submit the accounts on time will result in a £150 penalty which will continue to increase until they are filed. For more information please see [http://www.companieshouse.gov.uk/companiesAct/ca\\_lateFilingPenalties.shtml](http://www.companieshouse.gov.uk/companiesAct/ca_lateFilingPenalties.shtml)

Your accounts and corporation tax return is due to HMRC no later than 12 months after your financial year end. The penalty for late submission of the corporation tax return is £100 which will continue to increase until they are filed. For more information please see <http://www.hmrc.gov.uk/ct/change/problems/penalties.htm>

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The high penalties mean that it is important to send your records to us in good time before the deadlines. Following your financial year end we will send you out periodic reminders requesting your records.

### When and how do I pay tax?

Your corporation tax payable is due no later than 9 months and 1 day after your year end. Failure to pay the corporation tax on time could result in surcharges and interest being charged.

You can pay your corporation tax bill using the following methods:

**Faster payment:** You can transfer the tax you owe directly into HMRC's bank account through faster payment. This means it will reach HMRC instantly.

**Direct debit:** If you're registered for Corporation Tax Online you can set up a Direct Debit for HMRC to collect payment.

This method allows you to set up future payments as soon as you know how much is due - for example when you complete your calculation. HMRC will only ever collect the amount you ask them to by Direct Debit.

**Billpay:** This online service allows you to pay your corporation tax bill online with your debit or credit card. You can register for Billpay at the following link <https://www.santanderbillpayment.co.uk/hmrc/scripts/index.asp>

**Bank Giro:** If your bank or building society offers the bank Giro Service then you can pay your corporation tax bill at your own branch with cash or cheque.

**Post Office:** You can pay your corporation tax bill at the Post Office with cheque or cash.

For further information about paying your corporation tax please contact your local tax office or see the following link <http://www.hmrc.gov.uk/payinghmrc/corporationtax.htm>

### When do I need to register for VAT?

You must register for VAT if your turnover in any given 12 months reaches £77,000 (2012-13). However it is possible to register for VAT voluntarily before you reach this threshold. Voluntary registration may be beneficial if your customers are VAT registered. We will be able to help you decide whether or not it would be beneficial for your company.

### Register as an employer:

If you take on an employee you will need to register as an employer and start running payroll. We can complete your payroll for you or you can complete this yourself. You can contact HMRC on 0845 60 70 143 or by giving us a call.

### What is a HMRC tax investigation?

Every year HMRC will select corporation tax returns to investigate. HMRC will select returns either at random or because the submitted figures do not look right. It is unlikely that you would be selected for an inspection but if you are then you would be asked to show your paperwork to back up the figures submitted to HMRC. If you are chosen for an inspection then we would represent you at no extra cost.

### FAQ's

You may find it useful to have a look through our FAQ's for further information. Please visit <http://www.theaccountancy.co.uk/faq>