

Limited company guide



Contents

- 03** Operating as a limited company
- 04** Incorporating a limited company
- 06** Completing your bookkeeping
- 08** Claiming your business expenses
- 11** Corporation tax
- 13** Completing your accounts
- 15** Taking money from your company
- 19** Business insurance



What is a limited company?

A limited company is a type of business where the owner's liability is limited to the amount they have invested in the shares or guaranteed to the company.

In other words, the owners of a limited company are not personally liable for the debts of the company.



Operating as a limited company

Small businesses generally choose to trade through a limited company as they can be much more tax efficient compared with 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. Luckily we are here to help you with this!

A limited company is a completely separate entity from its owners.

Everything from the company bank account, to ownership of assets and any involvement in tenders or contracts is purely company business and separate from the interests of the company's owners or shareholders.

In comparison, a sole trader and their business are treated as a single entity for tax and administrative purposes.



Incorporating a limited company

Incorporating (forming) your limited company is relatively straight forward.

There are just three simple steps:

1. Decide who the director(s) is going to be

The director is the person that will be responsible for running the company, along with the shareholders.

2. Decide who the shareholder(s) is going to be

The shareholder(s) will be the person(s) who will own the company. The directors and shareholders are often the same people in small limited companies and can be just one person.

3. Register your company with Companies House

Once you have chosen your director, you will need to get a formation agent or accounting practice to register your company with Companies House. This can usually be done within 24 hours.



We can form your limited company for free on if you have registered with us for our accountancy services.



What is a UTR number?

A Unique Tax Reference (UTR) is a number assigned by HMRC to identify your company as a tax payer.

This number is assigned automatically after the company is registered with Companies House (usually within 28 days).

If you're a director, you will also have a personal UTR number, which relates to your personal tax affairs.

Completing your bookkeeping

Bookkeeping is the recording of your day-to-day transactions on some kind of system, such as a spreadsheet or accounting software.

These transactions are then used as a basis for completing your accounts and tax returns.

No matter how big or small your business is you will need to ensure you keep accurate bookkeeping records, to manage your overall finances and get a view of everyday expenses.

Pandle

We recommend using our very own bookkeeping software, [Pandle](#). Simple and easy to use we developed Pandle to cater specifically for small businesses in the UK just like yours.

Pandle can automate aspects of your bookkeeping through bank feeds, recurring transactions and automated payment reminders. This not only reduces the potential for errors but also allows you to spend more time focusing on your business.

As one of our clients, you will receive free access to Pandle Pro, the premium version of our software (usually £6 per month).



HMRC expect you to keep your bookkeeping records for at least 6 years.



How often should I complete my bookkeeping?

We recommend completing your bookkeeping as often as possible, on a weekly or monthly basis.

Doing your bookkeeping regularly reduces the chance of errors and allows you to clearly understand how your business is performing.

Claiming your business expenses

Different types of business will have different types of expenditure. But as a general rule the vast majority of business expenditure is allowable, even expenses you have incurred personally for business purposes.

The most common business expenses are:

- ✓ Motor expenses
- ✓ Staff costs and wages
- ✓ Use of home as an office (rent, rates and utility bills)
- ✓ Materials or goods you sell
- ✓ Admin costs (telephone and internet)
- ✓ Advertising and marketing costs
- ✓ Business insurances
- ✓ Repairs and renewals
- ✓ Work clothing
- ✓ Staff training
- ✓ Professional fees (accountants and lawyers etc.)
- ✓ Travel and subsistence
- ✓ Bank charges and interest
- ✓ Capital expenditure (equipment or furniture etc.)
- ✓ Entertaining costs
- ✓ Membership and subscription fees

We recommend opening a company bank account to keep your business and personal transactions separate.





What is a dividend?

A dividend is a payment from the company's profits (after tax) to its shareholder(s).

To declare a dividend, a dividend voucher and minutes must be produced.

Once the paperwork is in place, the money can be transferred from the company bank account to the personal bank accounts of the shareholders.

What is the financial year?

The financial year is a period of time for which a company will prepare its accounts and tax returns.

The tax payable will be based on the amount of profit a company makes during its financial year.

A limited company's financial year will usually run to the end of the same month of formation a year later, although this date can be changed.



Corporation tax

Corporation tax for limited companies is currently set at 19%.

This means any profits made during your financial year will be taxed at 19%.

Paying your tax bill

Your corporation tax is due no later than nine months and one day after your financial year end.

Failure to pay your corporation tax on time could result in surcharges and interest being charged to the company.

You can pay your corporation tax using the following methods:

- ✓ Faster payment (bank transfer direct to HMRC)
- ✓ Direct debit
- ✓ Billpay (pay online with debit/credit card)
- ✓ Bank giro
- ✓ Post office

For further information about paying your corporation tax please contact your local tax office or click [here](#).



What is a confirmation statement?

The confirmation statement notifies Companies House and the public as to the current company appointments, such as directors, shareholders and the company's registered office address.

We include the submission of your confirmation statement in our fees.



Completing your accounts

If we are completing your accounts and accompanying tax returns we follow this simple three step process:



1

We send you a reminder

To let you know when your accounts are due and ask for your bookkeeping records

2

We compile your accounts

After your accounts are completed, they'll be double checked by a Senior Accountant

✓

We submit your accounts

Once we've received your approval, we'll submit your accounts and returns to HMRC

Deadlines and penalties for late submission

Your accounts to Companies House are due no later than nine months after your financial year end.

Failure to submit the accounts on time will result in a £150 penalty.

This will continue to increase until they have been filed. For more information, please click [here](#).

Your accounts and corporation tax return are due to HMRC no later than twelve months after your financial year end.

Failure to submit your tax return on time will result in a £100 penalty.

This will continue to increase over time. For more information, please click [here](#).

Accounts approval

We are unable to submit your accounts to Companies House and HMRC until we have received your approval.

So to avoid any unnecessary penalties, please keep an eye out for emails from your accountant requesting this approval.



Taking money from your limited 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 company directors or shareholders do not pay income tax or national insurance. (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.

If you'd like some more information on this then please take a look at our [salary and dividends guide](#).





When do I need to register for VAT?

You must register for VAT if your turnover exceeds £85,000 (2019/20) in any given twelve months.

However, if your customers are also VAT registered it could be beneficial to register for VAT voluntarily before you reach this threshold.

What is a HMRC tax investigation?

Every year HMRC selects returns either at random or because the submitted figures do not look right.

It is unlikely that you would be selected, but if you are, you would be asked to show your paperwork to back up the figures submitted to HMRC.

If you're chosen for an inspection, then we would represent you at no extra cost.





What happens if I start employing someone?

If you take on an employee, you will need to register as an employer with HMRC straight away and start running payroll.

We can complete payroll for you, or you can complete it yourself. If you would like to discuss this with us, then call us on 020 3355 4047.

Business insurance

When you start a business you must make sure you have the correct insurances in place. Here are the three main types of business insurance you need to consider:

- ✓ Employer's liability insurance (if you have employees)
- ✓ Public liability insurance (if a customer suffers loss or injury)
- ✓ Professional indemnity insurance (if you sell your skills or knowledge)

Professional indemnity 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 the services you provide.



We've partnered with Caunce O'Hara. This partnership enables us to provide you with an exclusive 20% discount off your premiums.

[Get a quote](#)





Looking for more advice on limited companies?

If you have any further questions simply call us on 020 3355 4047 and one of our friendly accountancy advisors will be happy to help.

 [Get An Instant Quote](#)

