A GUIDE TO RUNNING A LIMITED COMPANY

GCAMS Accountancy Management Services Ltd

WWW.GCAMS.ORG.UK

"I'm pleased to provide you with our guide to running a Limited Company with our compliments.

The purpose of this guide is to explain the steps that you will need to take to set up your company and the compliance issues you will need to adhere to once the business is up and running.

For more information, please call 01277 204666."

GORDON COWLEY
DIRECTOR

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COMPANY FOUNDATIONS

Before you start running a limited company, it is imperative to check that you have the right foundations in place.

Companies House Registration

The business must be registered with Companies House and you need to provide details of the registered office and the company officers. If you are a service company and do not have a fixed trading address for your business, it is possible for you to use GCAMS' address as the registered office for your company.

Company Officers

It is now possible to have a sole Director of a company and you do not have to appoint a Company Secretary. There is no longer a requirement to publish your personal address as Director (or Secretary) on the public record of the company. Again, you can use GCAMS' address as a service address.

Shareholdings

Before the company commences trading, it is important that you have set up the required shareholdings. Shareholders do not need to be officers of the company. Most SME (small and medium enterprises) businesses are set up with just “ordinary” shares. However, it is possible to set up different classes of shares with varying rights, if appropriate. It is important to note that anyone owning standard “ordinary” shares in the business will be entitled to dividend income if this is paid out on this class of share. They also hold a stake in the company in the event that it is sold or wound up.

Bank Accounts

The company is required to have its own bank account. The bank will need a copy of the “Certificate of Incorporation” in order to set up the account. You can also open a savings or reserve account to help reserve funds for your tax bills.

Disclosure

Every limited company is required to display its name on all business communications, whether in paper or electronic format. In addition, it is compulsory to also display your registration details on letters, order forms and websites, including the registered office, registration number and the part of the UK in which your company is registered.

INSURANCE

Generally, there are three types of insurance you need to consider

1

EMPLOYERS LIABILITY INSURANCE

This covers the employer against claims by an employee for injury etc. If you are the only employee and control the company, it is not compulsory to have this insurance cover.

2

PUBLIC LIABILITY INSURANCE

This covers you against third parties if they claim to have suffered because of your actions.

3

PROFESSIONAL INDEMNITY INSURANCE

This is to insure the business against claims made against it by a client should they suffer a financial loss as a result of an error or negligence.

At GCAMS we also recommend you considering a Shareholders Agreement to cover the 'what ifs' in the life of a business:

What if:

A shareholder unexpectedly dies?

You die prematurely, what happens to the business? Your family?

A shareholder is unable (or unwilling) to work in the business?

You fall out with a shareholder?

A shareholder wants to sell the business? or sells their shares to a 3rd party?

You have not documented who can and cannot do what?

Shareholders do not have the same business goals – now or in the future?

A shareholder incurs debt or liabilities for the business without your consent?

A shareholder is taking too much money out of the business?

EMPLOYMENT, PAYE & NATIONAL INSURANCE CONTRIBUTIONS (NIC)

REGISTRATION

If you intend to pay a salary to yourself or others, then you will need to set up a Pay As You Earn (PAYE) scheme with HM Revenue & Customs (HMRC). HMRC will issue a reference number to the company for the scheme. At GCAMS we can take care of this for you.

PAYING STAFF

You are required to calculate, deduct and pay the Income Tax and National Insurance due for your staff to HMRC, usually on a monthly basis.

HOW IS INCOME TAX CALCULATED?

Each year, there is a tax-free allowance which individuals are entitled to earn before they pay any Income Tax.

There is then a "basic rate band". The income exceeding the personal allowance is taxed at the basic rate. The basic rate of tax at the date of print is 20%.

If an individual's income exceeds the basic rate band, then the excess falls into the "higher rate" tax bracket. The higher rate of tax at the date of print is 40%.

There is also an "additional" rate for high earners. At the date of print, if an individual has income exceeding £125,140, this will be taxed at 45%. In addition, individuals earning £100,000 and over will lose part or all of their tax-free allowance depending on their total income level.

HOW IS NATIONAL INSURANCE CALCULATED?

Similar to Income Tax, there is a NIC free allowance each year. However, unlike Income Tax, this applies to each employment an individual has. So if someone has more than one employment, they have more than one NIC allowance to utilise.

For earnings over the NIC free allowance, the employee is required to pay National Insurance at the standard rate.

There is a higher earnings bracket. If individuals earn over this limit, they pay a reduced NIC on the remainder of their income.

The employer is also required to pay NIC on salary exceeding the NIC free allowance. There is only one rate for employers' contributions, there is no reduced rate for high earners (unlike employees' rates).

Directors are subject to different rules for payment of NIC, which means that the rates are the same, but the timing is different during the tax year.

Paying Yourself

If you are paying yourself a salary, then you are required to run this through the PAYE scheme.

You may also wish to consider paying dividends from the business – please read the Dividends section for more information on this

Benefits in Kind

If the company provides your staff or yourself with any benefits other than salary, then you are required to complete a P11D or P9D form for each individual and file a P11D(b) employers' declaration form with HMRC each tax year.

Benefits in kind include provision of medical insurance, company cars and fuel, company vans and gym or health club membership. The company has to pay Employers' Class 1A NIC on the value of the benefits each tax year. The employee will also be required to pay Income Tax on their benefits.

If you pay yourself or your staff a mileage allowance, this is not a benefit in kind provided it is under the statutory limits. At the date of print, the annual statutory mileage allowances for individuals using their personal car for business journeys are:

- 45 pence per mile for the first 10,000 miles
- 25 pence per mile for miles in excess of 10,000

Pension Contributions

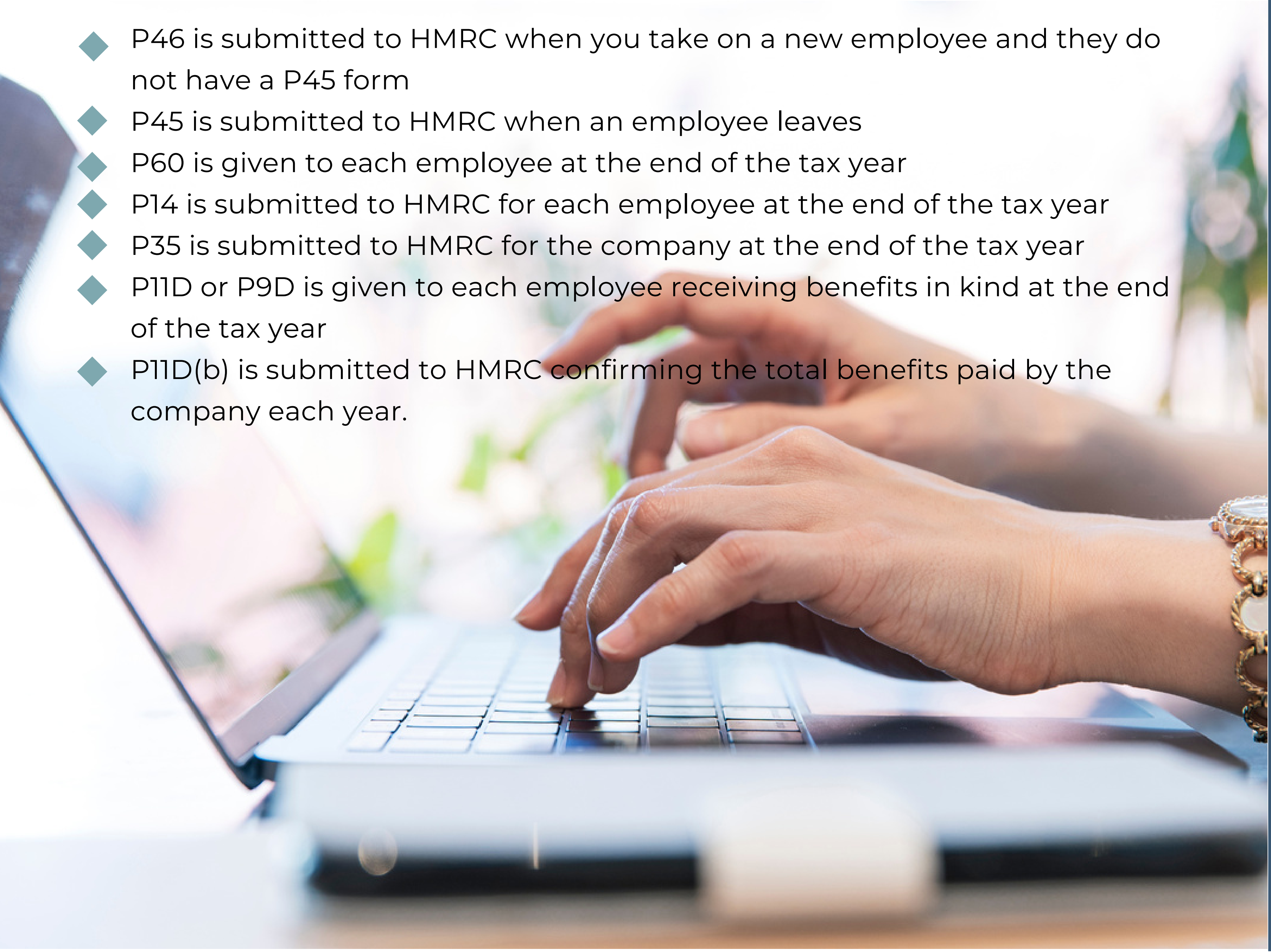
It is not currently a requirement for an employer to contribute to a pension scheme for an employee. However, if you employ five or more staff, then you are required to offer a "stakeholder" pension facility enabling your employees to contribute via your payroll system. If you do wish to contribute to a scheme for an employee, this is known as an "employer pension contribution". This would be treated as an expense for the company and therefore would be tax deductible. However, since the commencement of auto-enrolment in October 2012, companies are required to enrol eligible employees into workplace pension schemes and make minimum contributions.

Contracts and Legal Requirements

It is strongly recommended that you issue formal contracts of employment to your staff. These should set out the standard terms and conditions of their employment. However, if you are the sole Director of the company, you may not wish to have a formal contract of employment. This will give you flexibility to adopt a tax-efficient remuneration strategy.

If you run a PAYE scheme, you are required to prepare and file the following documents:

- P46 is submitted to HMRC when you take on a new employee and they do not have a P45 form
- P45 is submitted to HMRC when an employee leaves
- P60 is given to each employee at the end of the tax year
- P14 is submitted to HMRC for each employee at the end of the tax year
- P35 is submitted to HMRC for the company at the end of the tax year
- P11D or P9D is given to each employee receiving benefits in kind at the end of the tax year
- P11D(b) is submitted to HMRC confirming the total benefits paid by the company each year.



"Under the complex rules of Auto Enrolment, all employers have to provide for their qualifying workers.

At GCAMS, we provide a payroll service at a competitive cost. To find out more please give us a call on 01277 204666"

VALUE ADDED TAX (VAT)

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.

Registration

You will need to register immediately for VAT if the annual turnover of your company exceeds the VAT registration threshold on a 12 month rolling basis. However, there can be benefits for businesses in registering if your turnover is below this level, depending on the amount of VAT expenditure in your business.

To register, you must submit a VAT1 form to HMRC confirming the business' details. The VAT registration can take up to a few weeks to come through from HMRC.

Once you are registered, you are required to charge VAT on your sales at the appropriate rate, which is known as" output" VAT. The VAT which you incur on your costs is known as "input" VAT.

Invoice or Cash Accounting

If your business turnover is less than the cash accounting threshold, then you have the choice of accounting for your VAT either based on when you invoice your customers or based on when your customers pay you. The cash accounting scheme can help you to match your VAT payments to your business' cash flow.

Depending on the level of input VAT you incur, you may wish to transfer the output VAT element of your sales receipts into a bank reserve account to help save for your quarterly VAT payment.

VAT Returns

Each VAT period (usually quarterly) you must account for the output VAT you have charged to your customers and deduct the input VAT incurred on your costs from this. You must then pay the net balance to HMRC and file your VAT return with them each quarter.

You are required to file your VAT return electronically and pay by Direct Debit or bank transfer.

FLAT RATE SCHEME

If your business turnover is less than the VAT Flat Rate Scheme (FRS) threshold, then you may wish to use this scheme. The FRS was implemented by the Government to reduce the administrative burden for small businesses. The scheme is designed to be tax neutral.

Under the FRS, you will be allocated to the appropriate industry sector. Each industry sector has a fixed percentage rate. You continue to charge the standard VAT rate to your customers. However, each quarter you simply pay your industry's percentage of your gross turnover to HMRC rather than having to calculate your output and input VAT figures.

CORPORATION TAX

Registration

Once you have registered your limited company with Companies House, HMRC will be advised that your company exists. HMRC will then issue a letter confirming your company details.

This form will indicate the company's Unique Tax Reference (UTR), which is a ten digit number, and the company's allocated HMRC Tax Office.

Calculating and Paying Corporation Tax

Corporation tax is paid by the limited company on its net profits after allowable expenses and capital allowances. Corporation tax is always calculated based on the accounting period to a maximum of 12 months. If your accounting period is more than 12 months, you will need two tax returns to cover the period.

The Corporation tax rate depends on the level of profits made by the company. There are two main rates of Corporation tax, one for small companies and one for large companies. There is an effective "marginal" tax rate for profits falling between the small and large company profit thresholds. Corporation tax must be paid to HMRC nine months and one day after the accounting period.

Tax Planning

As the tax is not payable until nine months after the first accounting period, it is advisable to try and reserve some funds over the course of the year in preparation of this.

There are measures you may wish to consider to reduce your tax liability, including investment in qualifying assets for the company. Capital allowances can be claimed on some items of office equipment, fixtures and fittings and plant and equipment. It is important to understand the annual allowances and rates available for capital allowances before you reach the end of your accounting year.

You may also wish to consider other items, including additional employer pension contributions or staff bonuses, if appropriate.

It is important that you work with your accountant to agree your tax planning strategy and that you consider all aspects of taxation - corporate, personal, direct and indirect.

Paying Dividends

Dividends can be paid out of the post-tax profits of a limited company to its shareholders. If you are paying out interim dividends during the year from your limited company, it is a legal requirement to ensure that the company has made sufficient profits to pay these (after allowing for the Corporation tax liability).

Depending on the share structure of your company, you may be able to pay dividends on the different classes of shares, but these must always be in accordance with the number of shares each individual holds of that particular class. If you only have one class of ordinary shares set up in your company, then dividends must be paid to all shareholders in accordance with their shareholding.

Dividends are treated as "income" for the shareholders and Income Tax will be calculated based on their total income. There are separate Income Tax rates for dividend income compared to other forms of income. You do not pay tax on any dividend income that falls within your Personal Allowance. You also get a dividend allowance each year. You only pay tax on any dividend income above the allowance. You do not pay tax on dividends from shares in a stocks and shares ISA.

If the recipient of the dividend is not a higher rate taxpayer, then no further Income Tax will be due on the dividend. Higher rate taxpayers will be liable for an additional Income Tax charge on any dividends exceeding the higher rate threshold.

As dividends are not treated as earnings, there is no NIC payable. Due to the NIC saving, it can be a tax-efficient strategy to pay a low salary and take the remainder of the drawings as dividends.

You should consult with your accountant beforehand to agree an appropriate profit extraction method for your business after considering your personal circumstances.

IR35

IR35 was introduced in April 2000 in order to clamp down on "disguised employment". This is where HMRC believes that people have set up artificial limited company structures in order to avoid tax, instead of working as a normal employee.

Where a company provides the services of a member of staff to a client (either via an agency or directly) and the terms are such that without the intermediary company, the individual would be an employee of that client, then IR35 comes into effect. The impact of any companies being caught by IR35 is that HMRC would seek to tax the company's profits in the same way as a salary.

There are various factors and considerations which should be taken into account when deciding if the company falls within IR35 or not, and this should be looked at on a contract-by-contract basis.
If you are not sure if your company falls within this anti-avoidance legislation, speak to GCAMS for more information and advice regarding IR35.

Directors' Obligations

Every company Director must file a personal tax return form with HMRC each tax year. The tax return notice should be issued by HMRC in April of each year following the tax year end. If you have not received a notice, but have been a Director during the previous tax year, you should contact HMRC to advise them that you need to complete a return.

Self-Assessment Tax Returns

Tax returns are prepared and filed under the self assessment system. The tax return will include details of your income from all sources including salaries, dividends, bank interest and rental income. You may also be able to claim higher rate tax relief on pension contributions and gift aid donations via your tax return.

The deadline for filing your tax return is 31st October following the tax year end if you are sending in a manual form to HMRC, or 31st January if you are filing this electronically.

Tax Payments

Any outstanding tax liabilities are also due to be paid by 31st January following the end of the tax year. If you have a significant regular tax liability, you may be required to make payments on account during the tax year in advance of the balancing payment deadline.

We recommend making payments during the year under H MRC/s terminology of 'PAYG' - pay as you go.

The payments on account system can be complex if you have fluctuating levels of income across the tax years.

You should work with your accountant to provide your tax information on a timely basis to ensure you can plan for your tax liabilities effectively.

> At GCAMS, we have a dedicated team of specialists in personal tax who can complete your tax return on your behalf to help ease the pressure.

RECORD-KEEPING

Accounting Records

You are expected to maintain appropriate accounting records for the company. Whilst there is no set requirement as to how you maintain the records, HMRC requests that the records are adequate for the size and complexity of the business. As a minimum, you should maintain:

- Copies of sales invoices sent to your customers.
- Purchase invoices for any supplier costs you incur.
- Expenses claim forms for items reclaimed from the business by any directors or employees (including details of journeys for any mileage claims).
- Petty cash expense receipts.
- Bank account statements for the company account.
- Statements for any company credit cards.
- Copies of any loan / finance / hire purchase / credit accounts the company has with any third parties.

You are required to retain the records for a period of six years.

Accounts Systems / Software

Accounts Systems / Software There are many bookkeeping software packages available with varying functions. Before you set up a system, you need to:

1. Confirm the upfront and ongoing licence costs.
2. Consider what functionality you will require. For example, if you require a stock control facility or need to be able to process transactions and report in foreign currencies.
3. Review which software / system will be user-friendly for you / your accounts team.
4. Consider your backup arrangements and the security of your accounts data.
5. Consider whether you want to hold your accounts data physically in-house on your computers / servers or if you want to use a “cloud-based” operation

At GCAMS, we work with most bookkeeping software packages on the market. We also use online accounting systems with many of our clients. Online accounting is a great tool for business owners who are on the go and want to access their key data at any time. Our specialist business services team can help you choose and set up the most appropriate record-keeping system for you and your business.

Invoicing

In order to receive money from your customers, you will need to provide them with an invoice. Legally, an invoice must contain the following details:

1. Full company name and registration number.
2. Registered office (you should also display your trading address if the registered office is not where you want the payment to be sent to).
3. Invoice date.
4. Invoice number (you should use a sequential numbering system for your invoices - you may use a prefix if you wish).
5. VAT registration number.
6. Breakdown of the elements on the invoice, including the service, rate and VAT inclusive total.

Expenses

The key question which most new business owners ask is: “What expenses can I claim for?” The legal answer is that you can claim for anything which is “wholly and exclusively” for the business. In practical terms, this typically includes the following expenses:

- Wages, salaries and associated costs
- Employer pension contributions
- Office accommodation (including home office costs)
- Insurance
- Business travel (including mileage and public transport)
- Postage and stationery costs
- Mobile phone costs
- Telephone and broadband costs
- Computer equipment and software
- Technical books and publications
- Work-related training costs
- Subscriptions to approved professional bodies
- Business entertaining (although no tax relief will be given on this cost)
- Staff entertaining (subject to maximum limits)
- Accommodation and subsistence costs whilst working away on business
- Accountancy fees • Professional fees
- Bank charges and interest (if you incur any)

FILING REQUIREMENTS

1

ANNUAL ACCOUNTS

Every limited company in the UK is required to file accounts with the Registrar at Companies House. Accounts are usually made up to the business's accounting year end. The company's year end is originally set on the month in which it was incorporated. It is possible to change your company's year end, but an accounting period must not exceed 18 months. There are also restrictions on extending the year end more than once in five years. The annual accounts must comply with the Companies Act 2006, including the format and notes to the accounts. Smaller businesses are able to file abbreviated accounts, which means that they do not need to file a profit and loss account on the company record. The accounts must be filed with Companies House within nine months of the accounting date. There are strict penalty regimes for late submission of accounts enforced by the Registrar.

2

CORPORATION TAX RETURN

A Corporation tax return and tax computations must be filed with HMRC within 12 months of the accounting date. If the accounting period is for a period of more than 12 months, two Corporation tax returns are required.

Corporation tax computations and accounts must be filed electronically with the tax return form. These accounts need to be in "iXBRL" format, which is a computer code to allow the accounts to be read electronically by the HMRC system.

3

CONFIRMATION STATEMENT

Every limited company is required to file a Confirmation Statement (CS01) with the Registrar . This form confirms the registered office and any changes to the officers and shareholders of the company . Companies House charge a filing fee of £40 for this each year (or £13 if you file this electronically).

GCAMS
Accountancy
MANAGEMENT SERVICES LTD

Ready to take the leap?

If you would like further information or to enquire about one of our packages, please contact us.

Howes Farm
Doddinghurst Road
Brentwood
Essex
CM4 9BE
01277 204666
info@gcams.org.uk

www.gcams.org.uk