



# A Guide to Running a Limited Company



HARGREAVES OWEN LTD  
CHARTERED CERTIFIED ACCOUNTANTS

## Who we are

We are a firm of chartered certified accountants based just outside Hitchin in Hertfordshire. Our founders have over 50 years' combined experience dealing with small and medium sized businesses.

We pride ourselves on delivering a consistently high service wherever you are in the country.

## What we do

We offer accountancy services that aim to save you as much time and money as legally possible. We do this through a combination of easy to use online software, expert accountants and first class customer service. As a client, you would have:

- Your own dedicated account manager
- A one stop shop for all your accountancy needs
- Unlimited expert support and advice
- Higher level Tax Planning to ensure you never pay too much tax!

Call us now on **01462 791079** or email us at [info@hargreavesowen.co.uk](mailto:info@hargreavesowen.co.uk) to speak to one of our experienced advisors and find out exactly what we can do for you.

→ **Look out for the 'How we can help' pointers throughout this guide.**

## Meet the Partners

Karen Bunyan and Trina Haggerty.



# About this Guide

This guide has been written to provide anyone who is considering setting up a limited company with enough information to cover the basics. We hope you find it useful.

Please note, this guide provides general guidance only; specific advice should be sought from your accountant regarding your individual circumstances before any action is taken.

All of the rates and allowances in this guide are for the tax year 2021-22. We release a new guide after 5th April each year with up-to-date rates and allowances.

Contact your account manager or visit our website for the latest guide.

## Company Set-up

### *The set-up process*

When you start a limited company, you have to register the company at Companies House (this is called incorporation).

Before you incorporate your company you will need to decide the company name, who the directors and shareholders will be, the address for the registered office and the company year end (this can always be changed at a later date).

There are certain rules you have to abide by when choosing your company name. It can't be the same as an existing company, be offensive or include "sensitive" words.

It is also important to make sure the company name you have chosen has a web domain available. There is nothing worse than setting up a company and realising the web address or e-mail addresses are not available.

Once incorporated, you will receive a certificate of incorporation showing your company name, company number and date of incorporation. You will need this in order to open a company bank account.



### → How we can help

For a one off fee of £250+VAT we can handle the whole set-up process for you including:

- Company incorporation and all paperwork
- Registering for PAYE, Corporation Tax & VAT with HMRC
- Advice on best business structure (shares, remuneration packages)

For a fee of £135+VAT per annum we can Act as Registered office for the company.

## Shareholders and Directors

The shareholders own the limited company but they do not necessarily run the company.

The directors are responsible for running the company but in a small company the director may well also be the only shareholder. All limited companies must have at least one Director. There is no longer a requirement to have a company secretary.

It may be in your interest to appoint other shareholders in order to operate as tax efficiently as possible. You should talk this through with us in the first instance.

## Directors' Responsibilities

You will be responsible for ensuring that the limited company meets its obligations and is run in accordance with the Companies Act 2006.

There are a number of key responsibilities you should be aware of:

- Ensuring you always act in the best interest of the company
- Handling the day-to-day running of the business
- Preparing and filing accounts and annual returns
- Reporting changes to Companies House

You must also ensure the company obeys the following laws:

- Tax Law
- Employment Law
- Company Law
- Health & Safety Law



# Business Bank Account

Once you have your limited company you will need to open a bank account. It is vital that you set up a separate business bank account in your company name and do not use a personal account.

Almost all high street banks will offer a business bank service and many offer free banking for new businesses for a set period of time.

## → How we can help

Some people prefer to open an account with their current bank, but if you prefer we can recommend one of the banks we have a close partnership with.

# Pay As You Earn (PAYE)

Before you can pay yourself or your employees a salary you will need to register and set up a PAYE scheme with HMRC.

Once registered, you will receive two unique reference numbers and you will be required to deduct tax and national insurance from salaries paid to employees and directors.

As an employer you will have to:

- Deduct and pay to HMRC, tax and National Insurance Contributions (NIC) from any salary payments and submit Real Time Information (RTI) to them
- Provide P60s by 31st May to all employees
- Report benefits and expenses paid to employees by 6th July after the tax year end
- Set up Auto-Enrolment for employees

## → How we can help

We can set up your PAYE scheme, run monthly payroll for you, advise you on how much and when to pay over to HMRC and complete the necessary end of year forms as well as RTI filing each month. Melanie Oates is our Payroll Administrator and she is great at taking the hassle out of running a payroll.



# Tax and National Insurance (NI)

Under PAYE there are three main types of tax you will be required to pay HMRC: Income Tax, Employers National Insurance and Employees National Insurance.

**Income Tax** – This will be deducted from the employee's salary. Currently the first £12,570 is tax free (if your total taxable income exceeds £100,000 then this allowance is gradually withdrawn). The next £37,700 is taxed at 20%. Any income above this, up to £150,000, is taxed at 40% and any income over £150,000 is taxed at 45%.

**Employees NI** – This will be deducted from the employee's salary at the rate of 12% on any salary above £9,568 (below this amount there is no NI to pay) up to £50,270. Above this NI will be deducted at the rate of 2%.

**Employers NI** – As an employer your company has to pay this at the rate of 13.8% on any salary above £8,840.

## Value Added Tax (VAT)

You don't have to register for VAT until your taxable turnover reaches the registration threshold (£85,000 from 1st April 2017).

You may choose to register voluntarily even if your turnover does not exceed the registration threshold. If your customers are all VAT registered (businesses not the public) then voluntary registration would be a good idea.

The other reason for voluntarily registration may be to take advantage of the VAT Flat Rate Scheme.

### → How we can help

We are happy to discuss with you how either of the above work in more detail.

It is important to remember that once you are VAT registered you will be required to add VAT on to all of your sales invoices. If you are selling to members of the public, rather than VAT registered businesses, then this will increase the cost to them as they cannot claim back the VAT.

The current rate of VAT is 20%. If you charge a client £100 you will have to add £20 (20%) VAT on top making the total invoice £120.

If your turnover is £85,000 and above you are required to file the VAT digitally.

### → How we can help

We can help with Making Tax Digital. We offer assistance setting up a computerised system and training on how to use it.

# Corporation Tax

After incorporating your company HMRC will require you to send a letter providing them with the new company details. This letter will register your company for Corporation Tax and HMRC will then supply the business with a tax reference number.

## → How we can help

If you need help drafting the letter then we can do this for you.

Corporation tax is the tax your company pays on the profit. The current rate for small companies is 19%. Profits are before dividends are taken and the corporation tax is payable on the total profits.

You will be required to submit a Corporation Tax return, along with a set of accounts, yearly to HMRC. These are due 12 months after your company's year end.

You must pay your Corporation Tax within 9 months and 1 day from your company's year end, but this can differ for the first period of trading.

## → How we can help

If you would like us to act as accountants for the business then Karen Bunyan, our Tax Director, will be responsible for preparing the business tax returns and dealing with HMRC on your behalf.

# Tax Planning

## Earnings over £100,000

If your taxable earnings for 2021-22 are likely to exceed £100,000 then you need to be aware that for every £1 your income exceeds £100,000, your income tax personal allowance will be reduced by £2. In effect, when your income reaches £125,140 you will no longer qualify for the personal allowance.

This would mean from £100,001 to £125,140 the effective rate of tax charged would be 60%. In simple terms anything you can do to reduce your income below £100,000 will save you £600 for every £1,000 reduction.

## Earnings over £50,000 and Child Benefit

When the adjusted income of either parent exceeds £50,000 the family entitlement to child benefit reduces by 1% of the benefit for every £100 the income of the highest earner exceeds £50,000.

This means that when the income of either parent is £60,000 or more child benefit is lost entirely. For example, a family with two school age children, benefits at risk would amount to £35.15 per week, £1,827.80 per annum.

## Possible strategies to reduce your earnings level:

- Increase pension contributions
- Transfer savings or income producing assets to a spouse or civil partner
- Make additional gift aid payments to increase your basic rate band
- Retain more in the limited company for distribution at a later date
- Change profit share arrangements to equalise incomes between couples



# Invoicing

In order to get paid you will need to send invoices to your clients. There are certain things that must be included on an invoice including:

- The word 'invoice'
- Unique invoice number (sequential)
- Invoice date
- Company name and address of the customer
- Description of goods/services
- Breakdown showing rate, period and total owed
- VAT amount and Registration Number (if applicable)

There are certain things that are not legal requirements but are still a good idea if you want to get paid! Such as how you want to receive payment and your business bank account details. Also, don't forget to state your payment terms e.g. 14 days.

# Expenses

No matter what your business does you will incur some expenses as a result of running your business. You will only pay tax on your profit (income less expenses), so the more expenses you are able to claim the lower your tax bill.

As a general rule, if an expense has been "wholly and exclusively" incurred for carrying on and earning the profits of your business, it will normally be allowable.

It is important to remember that HMRC could ask you for proof of these expenses so it is important that you keep copies of all receipts.

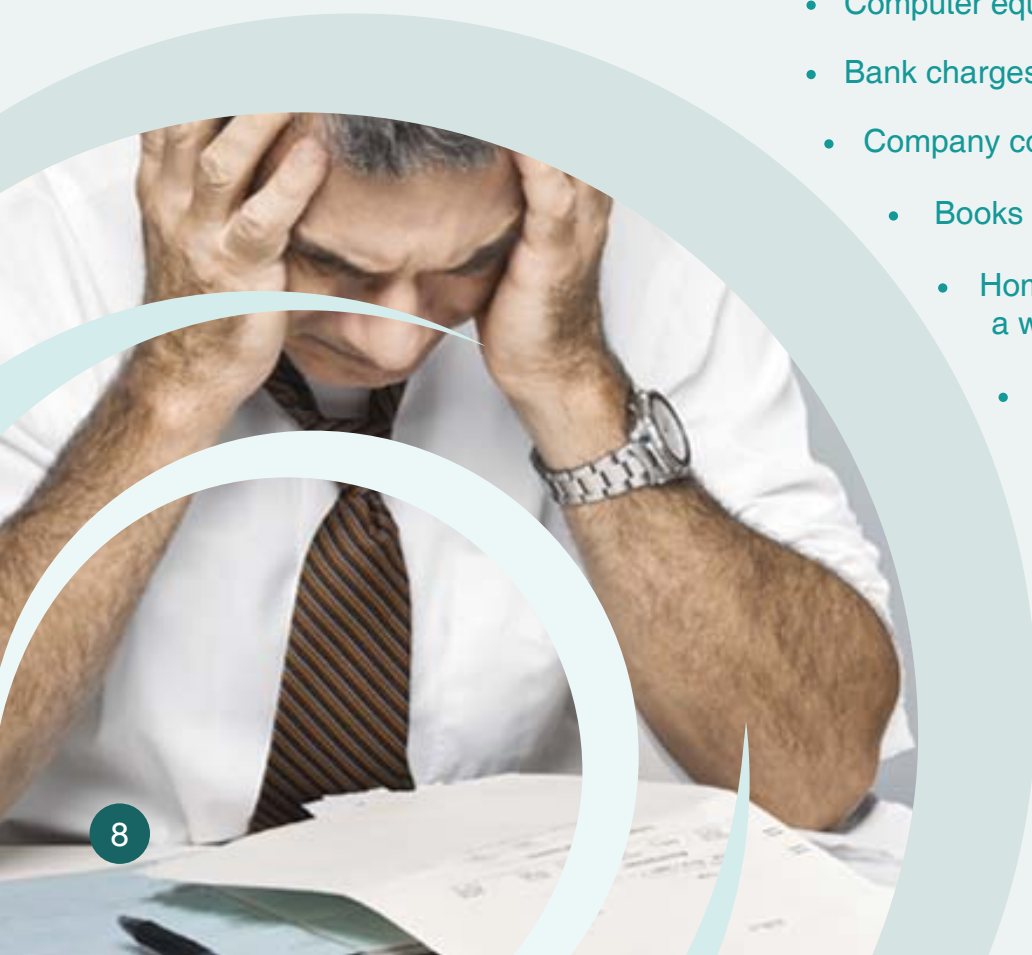
As a rough guide some of the typical expenses you can claim are:

- Business travel and subsistence
- Accommodation while away on business
- Accountancy fees
- Mobile telephone (if in the Company name)
- Postage and stationery
- Computer equipment, software and internet
- Bank charges
- Company contributions to a pension
  - Books and publications
  - Home office costs (currently £6 a week/£26 a month)
  - Subscriptions to approved professional bodies

## → How we can help

If you have any questions as to whether an expense is allowable or not please do not hesitate to call us.

Note: If you are inside IR35 (see IR35 section on page 9) the expense rules are different, so give us a call to discuss.





# Insurance

The three most common types of insurance required by Limited company contractors are:

**Employer's Liability Insurance** – Protects against claims from employees injured due to an employer's negligence. This is a legal requirement for all businesses, however there is an exception if the company only has one employee and that employee owns 50% or more of the shares – which will be the case for many clients.

**Public Liability Insurance** – Protects against injury caused to members of the public and damage to their property caused by your company/employees.

**Professional Indemnity Insurance** – Protects against claims where a client has suffered financial loss as a result of errors or negligence in the service you have provided.

**Relevant Life Cover** – This is effectively a “death in service” policy for directors and key staff. The policy allows for Life Cover for a single individual to be paid for by the business, rather than from earned and taxed income. Most life cover policies are not tax deductible in the business so please speak to us to find out more.

**Other types of insurance** – Freelancer legal protection, Personal Accident and contract review.

## → How we can help

Please note that as we are not authorised by the FSA we cannot provide you with any of the above Insurances but we can recommend someone who can help.

# IR35

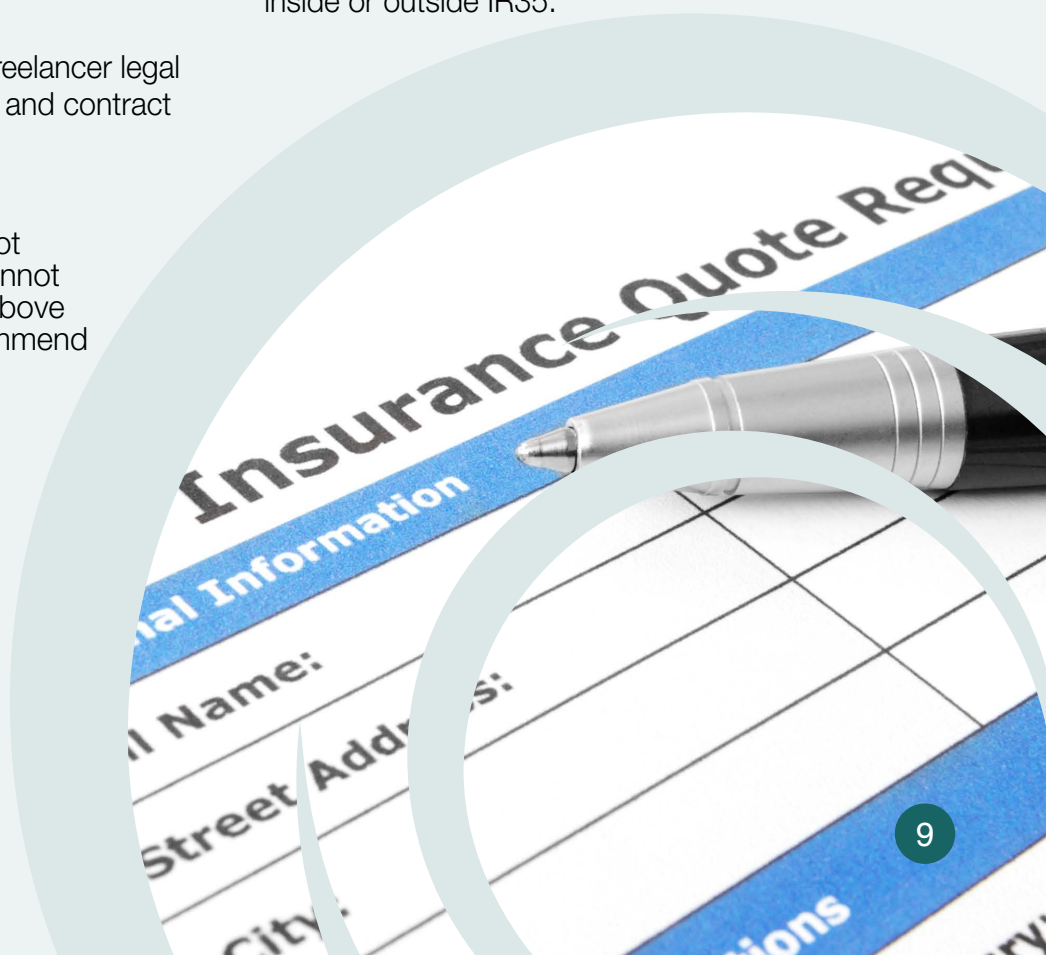
IR35 is a complex tax legislation that, simply put, is in place to stop contractors using Limited companies to save tax whilst working for a client where ordinarily they would be seen by HMRC to be employees.

When deciding whether you are classed as “employed” or “self-employed” several factors need to be looked at within your contract and working practices. If you are deemed to be “employed” then you fall inside the IR35 legislation.

If you are inside IR35 then you have to operate the majority of your pay as “deemed salary”. This attracts tax and NI at the same rate as a regular salary. The expenses you can claim are also limited.

If you are outside IR35 you can pay yourself a smaller salary, with any further profit paid to you as dividends. You can also claim any allowable business expenses. This will give you a much higher net income than operating inside IR35.

Ensuring you get your IR35 status right is important. Getting it wrong could cost you a lot of money in fines, interest and backdated tax. For this reason we strongly recommend that you seek the advice of a tax status specialist who specialises in IR35. They can review your contract and your working practices and advise you whether they believe you fall inside or outside IR35.



## Dividends

If you fall outside the IR35 legislation then you will pay yourself dividends. A dividend is a distribution of profits after tax, from the company to its shareholders.

Before you declare a dividend you must make sure there is enough profit in the company to do so (not simply enough money in the bank). After this the dividend can be paid providing all of the necessary paperwork has been completed.

Income tax rates – (dividend income)		
Up to £2,000	0%	0%
£2,000 - £37,700	7.5%	7.5%
£37,700 - £150,000	32.5%	32.5%
Above £150,000	38.1%	38.1%

## Salary

If you fall outside the IR35 legislation then the level of salary you pay yourself is completely up to you. There are three possibilities when setting your salary level. These are:

**1) NIC Free Allowance** – Setting your salary level at the NIC free allowance (currently £8,840) may be the most tax efficient salary as you pay no tax or NIC on your salary, but we would need to look at your personal circumstances to be sure this was the correct level for you.

**2) Personal Tax Allowance** – Currently £12,570 from 01/04/2021 as an annual salary. As this would exceed the NIC free amounts, you would have to pay some NIC but no tax on this salary.

**3) Market Rate Salary** – You may decide to pay yourself a much higher salary based on what you would expect to obtain in the marketplace. This would mean a higher tax and NIC bill.

Which one you choose can depend on whether you have any other employees on the payroll and if you are entitled to the £4,000 NI employment allowance. There are other factors that affect your choice, such as IR35, insurance policies or pension contributions.

## Personal Tax Return

As a director of a limited company, HMRC will expect you to complete a personal tax return (also referred to as a self-assessment tax return) each year.

The deadline is 31st January (providing you file online) after the end of the tax year. E.g. for the 2021-22 tax year your return would be due by 31st January 2023. This is also when any outstanding tax is due to be paid.

A tax return will include details of your salary, dividends, and any other income you may have, such as property rental or bank interest.

To be able to file your return online you need the 10 digit UTR number which can be found on the front page of the tax return. If you do not receive a tax return and do not already know your UTR number you will need to contact HMRC.

You must register in advance to file online with HMRC. There are strict penalties for late submission of your return or if you fail to pay your taxes on time, so make sure you don't leave it too close to the deadline.

## Payments on Account

Payments on account can be confusing to understand at first but are important as they can have a big impact on your pocket. A payment on account is made twice a year and is effectively paying for next year's tax in advance.

On 31st January you will make a "balancing payment" settling any unpaid tax for the previous tax year. On the same day you will also be required to pay your first payment on account for the current tax year. The amount is calculated at 50% of your tax bill for the previous year. Your second payment on account will be for the same amount and be due 31st July.

If you expect your income to be less next year then it is possible to reduce your payments on account.



# Dates for your diary

**Company year end** - will be the last day of the month your company was incorporated on. For example, if your date of incorporation is 31/12/2020 your first year end will be 31/12/2021.

**Tax year end** – 5th April.

**Confirmation Statement** – yearly on the anniversary of the date of incorporation. Due within 14 days.

**Company Accounts** – due with Companies House 9 months after your company year end.

**Corporation Tax return** – along with your accounts, this needs to be with HMRC within 12 months of your company year end.

**Corporation Tax payment** – to be paid to HMRC within 9 months and 1 day of your company year end.

**VAT return and Payment** – due with HMRC quarterly on the 7th of the month after your VAT quarter end (E.g. VAT quarter 31st December due for payment 7th February).

**PAYE/NIC deductions** – due to be paid to HMRC by 22nd of every quarter (July, October, January & April) – may be required monthly depending on the amount of tax due. RTI (real time information) must also be reported online to HMRC each month.

**Payroll Year end forms** – P60s to employees by 31st May.

**Payroll P11d form** – due with HMRC by 6th July.

**Personal tax return** – due with HMRC by 31st January.

**1st Payment on account** – due to be paid to HMRC by 31st January.

**2nd Payment on account** – due to be paid to HMRC by 31st July.



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