

SETTING UP A LIMITED COMPANY
A GUIDE FOR START-UPS, FREELANCERS AND CONTRACTORS
2017

Making the
numbers
work for you



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Welcome

Hello and welcome. I'm **Nicola O'Sullivan**, the founder and managing director of Effective Accounting.

I launched Effective Accounting in 2008, when I spotted a gap in the market for an accountancy firm that offered exceptional accountancy services to contractors and small business owners who wanted straightforward, jargon-free advice, with a personal approach.

Nearly ten years later, I'm still going strong. These days I'm supported by a small team who share my vision to take the worry and fear out of accounting. However, I'm still very much at the heart of the business, getting to know and supporting our clients.



Nicola O'Sullivan
FCCA MAAT

Haven't used an accountant before?

If you think accountancy is boring, difficult and too expensive, you'll be pleasantly surprised by our service.

We're a friendly, dynamic team with a fresh approach to accountancy.

We'll explain the accounting process and show you how to get the best out of your business.

How we can help you?

We'll get to you know you, understand your goals and help you build a successful, tax-efficient business.

Want to find out more?

Let's talk!

Come for a coffee and a chat at our offices in Milton Keynes, or we can visit you.

Call us today on **01908 563250** or **07743 419596** to book an appointment!

About This Guide

How will this guide help me?

Setting up a limited company is a straightforward process, but it's important to understand what's required of you legally.

So we've written this guide to walk you through the first steps of setting up your limited company.

It will be useful for you if you're a brand new start-up or a freelancer/contractor transferring from sole trader to limited company status.

Things to consider before becoming self-employed

More people than ever are taking the plunge into self-employment/contracting.

Before you join them, however, you should consider the following points:

- Are you ready to make the switch from employed status to self-employed/contractor?
- Will you be able to manage without the security of a fixed salary, benefits and the support of colleagues?
- Do you understand the legal implications of being a director of a limited company?
- Are you prepared to put in the hard work and long hours to make it work?
- Is a limited company the right option for you?
- Do you know about IR35 legislation and how it affects you?

With good planning, hard work and the right advice, you will give yourself every chance to make a success of your new company.

This guide will give you an overview of everything you need to know. For information on our services read: How we can help you (at the end of this guide).

Setting Up Your Limited Company – The Basics

Naming and registering your company

Unlike sole traders, it's not permissible for two limited companies to use the same name. It's important to check with Companies House that your chosen name hasn't already been registered by another business.

You'll also need to bear in mind that some words (that could be deemed offensive) cannot be used as part of a limited company name.

Once you've checked the above, you will be able to register your chosen company name with Companies House.

Tip:

If you're planning to have a company website, remember to check that your desired domain name is available and purchase it immediately.

Identifying your shareholders and directors

You will need to decide who will act as shareholders and directors before registering your business.

What's the difference between a shareholder and a director? Shareholders own the business and directors run it, so it's possible to be a shareholder and a director.

There are certain rights that come with being a shareholder. For example, they can withdraw dividends from the company (although this must be in proportion to the number of shares held by each shareholder).

If you plan to have more than one shareholder, it's important to have trust in the other party/parties as you're taking on an important joint financial commitment.

We can advise you on the best share structure to suit your business.

Registered address

You must have a registered office for your limited company. This is where legal correspondence from HMRC and Companies House will be sent.

The registered office doesn't have to be the same address as where the business trades from.

We can take care of this for you through our **Registered Office Service**.

We also offer a **Company Formation Service**, which covers all of the above and includes the following company documentation:

- **Articles of Association** (your company's terms and conditions and how to run your business)
- **Certificate of Incorporation** (official confirmation of your company formation)
- **Memorandum of Association** (similar to a mission statement, this declares what your company does and how it has to do it)
- **Share Certificate** (detailing what shares are worth and how they're allocated)

Setting Up A Company Bank Account

It's important to be aware that you and your limited company operate as separate entities.

So you will need to set up a bank account in your company's name, and ensure that you keep clear records of all transactions.

Keep your personal finances and expenses separate, and pay these from your personal bank account.

In many cases, it will be easier and more tax-efficient to make company purchases from your company's bank account (instead of your personal bank account). You can find out more about this in our separate guide: [A Guide To Allowable Expenses For Limited Companies](#)

There are lots of different business bank accounts out there, so take your time to do your research and choose an account that works for you.

Insurance

The type, and amount, of insurance you take out will depend on the nature of your business, but here's an overview of what you might need:

Contents insurance

Contents insurance is necessary if you own or rent external business premises.

Professional indemnity insurance

Often compulsory for freelancers and contractors, this insurance covers the business for any claims of financial loss due to error or negligence.

Employer's liability insurance

This is compulsory by law if you have staff, and covers the business for any claims by employees for injury etc.

Public liability insurance

This insurance is optional and covers the business for any claims from the public for injury etc.

Tax investigation insurance

In the event of being investigated by HMRC, this insurance would cover you for legal costs and any accountancy fees associated with a tax investigation.

*We offer Tax Enquiry Cover as part of our **Premium service**. Get in touch to discuss how we can help you.*

If you're a contractor, your contract will probably state the level of insurance and cover you need.

Company Tax (How You Will Be Taxed)

You will need to be aware of the following taxes:

Corporation Tax

Is applied to your company's profits after business expenses have been accounted for, but before you can withdraw shareholder dividends.

Corporation tax is calculated alongside the preparation of your annual accounts.

Corporation tax is calculated after deducting allowable business expenses, so it's in your interests to ensure that you claim everything you can, to avoid paying too much tax.

You can find out more about this in our separate guide: **A Guide To Allowable Expenses For Limited Companies**

You will need to submit an annual CT600 Return, the first one to be filed within 12 months of your company's first year. You must pay your corporation tax bill within 9 months and 1 day of your company's year-end.

VAT

Is an additional tax (currently 20%) added to many goods and services. You will need to register for VAT (this doesn't happen automatically) but only if your turnover exceeds £85,000 per annum.

If your annual turnover is less than £85,000, you can still register for VAT but you're not obliged to.

There are several different VAT schemes open to you, each with its own pros and cons. It's important that you seek advice on the best option for you, particularly with changes to the VAT Flat Rate Scheme in April 2017.

As a director, it is likely that you will want to take a salary from the company. Doing so, set at the correct level, can not only be tax efficient but also ensure you meet NI requirements to qualify for state benefits.

If you take a salary, the company will need to be registered for PAYE and report salaries paid to HMRC.

Company Tax (How You Will Be Taxed) Cont'd

PAYE

Stands for Pay As You Earn. If you have any employees, you may need to deduct income tax and national insurance from their salary and pay to HMRC.

In addition to deducting income tax and national insurance from the employee's pay, as their employer you will be responsible for paying Employer's National Insurance.

If you provide any taxable benefits or reimburse expenses to an employee, you will need to declare this on an annual P11D form to HMRC.

Personal income tax

As a director, you are required to register with HMRC for self-assessment.

You'll need to report your salary, dividends and any other income on a self-assessment tax return each year (the tax year runs from 6th April to 5th April each year).

The deadline for self-assessment return and payment of any tax due is 31 January if you complete it on-line.

You will need to complete your self-assessment in the year following the relevant tax-year. For example your 2016/17 self-assessment will be due January 2018 (on-line).

With your agreement, we can be appointed as agents with HMRC, so we can manage all of the above, and any routine queries will be automatically copied to us too.

Invoicing Clients

You're probably aware that to charge clients for your services, you will need to raise an invoice requesting payment.

There are a number of legal requirements when raising an invoice:

- The word 'invoice' must be shown on your document.
- You will need to include an invoice number (which will follow previous invoices raised).
- You must include your company's name, registered office and registration number on the invoice.
- The client's name and address must be shown.
- You'll need to include a clear description of the goods and/or services the client is paying for.
- The supply date must be shown (if different from invoice date).
- You must itemise the price breakdown before and after VAT, the VAT rate and total amount payable, with the VAT element shown separately.

Allowable Expenses (What You Can Claim Tax Relief For)

Allowable expenses are expenses you can claim that are deducted from your overall profit on your company's accounts, thus reducing the corporation tax that you pay.

Many business owners don't know what they're eligible to claim. The rules can be complex, and easily misinterpreted, so it's important to gain a good understanding of what's allowed.

You can find out much more about this in our separate guide [A Guide To Allowable Expenses For Limited Companies](#). Please also seek our advice so we can make sure you're claiming correctly.

Salaries And Dividends (How To Pay Yourself As A Director)

As a director and shareholder of a company, you can withdraw funds in two ways:

Salary

Paying yourself a salary can be a tax-efficient way to withdraw funds and will also ensure you meet NI requirements for state benefits.

The salary is treated as a tax deductible expense to the company, which reduces the company profit before corporation tax is calculated.

You will need to be registered for PAYE and report salaries paid to HMRC.

Dividends

These are available from profits after tax, ie any profits remaining in the company after corporation tax has been calculated.

They must be paid in proportion to the number of shares held.

You may pay some income tax (calculated on your personal tax return) depending on the amount of salary and dividends you withdraw.

Tax rates and thresholds change annually, and we provide a bespoke recommendation of salary and dividend structure accordingly.

IR35 Legislation

IR35 is a complex legislation that determines whether you are employed by the client you are providing services for, or providing services to them as a self-employed contractor/freelancer.

As a company director, it's imperative that you ensure that your company doesn't fall on the wrong side of the law when it comes to IR35.

Unfortunately, it can be difficult to determine if you fall inside IR35 and if an investigation goes against you, you could face unexpected tax/NI bills and penalties.

Please refer to our separate guide: [IR35 Legislation: What Is It And How Does It Affect Me?](#)

IR35 is a complex legislation; we strongly advise you to seek our advice on this issue.

Annual Accounts

Under the Companies Act 2006, you are required to prepare annual accounts.

Your company accounts must be submitted to Companies House (public record) within 9 months of the year end, and to HMRC (along with the corporation tax return) within 12 months of the year end.

If you're a small business, you will only have to submit 'abbreviated' accounts which consist of a balance sheet and notes about the company.

Your accounts will need to be signed by the company director, and if 'abbreviated' accounts, you should include an audit exemption statement.

You will still need to submit a full set of accounts to HMRC with your corporation tax return.

Confirmation Statement

By law, you're required to complete an annual Confirmation Statement.

The Confirmation Statement provides, and updates, Companies House with your basic company details such as registered office, directors and shareholders.

You need to be aware that this information is held on public record, meaning it's published online and can be viewed by anyone.

The Confirmation Statement includes:

- Type of business and company address
- The address of your company's shareholders and directors
- The type of limited company
- Share information – number of shares, value and ownership details
- Debenture (unsecured loan) details, if applicable
- Declaration of people with significant control

Companies House will charge you a submission fee of £13 for this submission.

Your Confirmation Statement has to be submitted within one year and 14 days of when your company was formed, and every 12 months after.

Failure to submit your Confirmation Statement could result in prosecution, your company being dissolved and removal of any future director opportunities, so it's extremely important to plan ahead and meet the deadlines.

How We Can Help You

As a director of a limited company, you will have a number of legal responsibilities.

At **Effective Accounting**, we offer a comprehensive service to help you set up and run your limited company, so you can be confident you have everything in place and submitted on time.

- Start with our **Company Formation Service**, and we can guide you through the process of setting up your limited company.
- Sign up to our **Monthly Fixed-fee Service** to allow us to manage the following:
 - Bookkeeping
 - VAT
 - Payroll
 - Accounts
 - Corporation Tax
 - Personal Tax/Self-Assessment
 - Ongoing advice
 - Act as agents (liaising with HMRC on your behalf)
- Upgrade to our **Premium Service** and you will have the added benefit of Tax Enquiry Cover.

Forget wading through piles of paperwork. Often, all we need from you is your digital signature and we take care of the rest; preparing and submitting everything on your behalf.

We'll always explain everything in clear, jargon-free language so you can understand what we are doing and why.

DISCLAIMER:

We've written this guide to give you an overview of setting up and running a limited company.

As a director of a limited company, you are subject to many legal obligations and responsibilities, so always check with us to ensure you have everything covered.



Don't have an accountant, or thinking of changing your accountant?

We'd love to help you save money and make a success of your business. We have a straightforward, jargon-free approach to accountancy, taking away the worry so you can concentrate on your business.

Let's talk

We can come to you, or you're welcome to come and meet our friendly team in Milton Keynes.

We can talk you through the options and provide you with details of our fixed fee services, with no obligation on your part to take things further.

Get in touch today to make an appointment!

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