LIMITED COMPANY

GUIDE TO OPERATING YOUR OWN COMPANY

ZMARTLY

Understanding a Limited Company

What is a limited company?

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

It means that if you run your own limited company, any debts or liabilities it has are not yours - they belong to the business.

As long as your personal finances are kept separate from the business's finances, your personal assets will not be at risk if the company gets in trouble.

The main advantage of running a limited company is that shareholders (also known as members) have limited liability. I.e. they won't be personally liable for any debts or liabilities the company may face.

However, as well as being more complicated to set up than other forms of business structure. Running a limited company can also be more time-consuming than other structures because it has more administrative requirements. There are usually more rules and regulations you need to follow.

Operating as a Limited Company

If you are a beginner and planning to start, this guide can help you.

Undoubtedly, having a limited company to trade through is brilliant for certain businesses. Certain niche businesses may not have a good reason to set up as a limited company from the start. Still, when tax issues arise, you might want to consider the option to convert your business into a limited company.

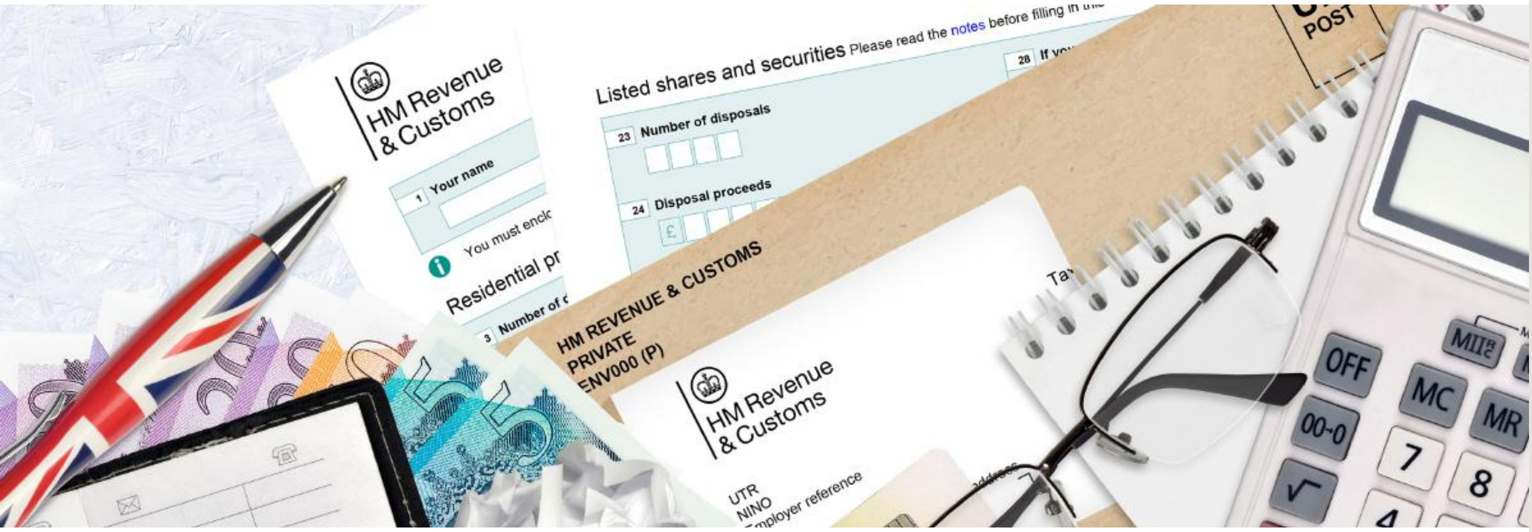
Structuring your business in the right way can save you a lot of money.

A limited company is an entirely separate entity from its owners,
and this means that if the business defaults on payments or even enters bankruptcy, the owners' personal assets are protected. The same goes for any legal action taken against the company — such as a lawsuit. The directors of a limited company can also benefit from a range of tax advantages that sole traders and partnerships don't have access to.

However, certain obligations must meet when setting up a limited company. Many of these are similar to those required by sole traders and partnerships. The main difference is that companies are expected to keep accurate accounting records and file accounts with Companies House each year.

Companies House

Understanding what is a UTR number



If you're setting up a limited company, you'll need to register with Companies House and HMRC. At the same time, you should get a UTR number from HMRC – this is your 'unique taxpayer reference number.

HMRC assigns each self-assessment taxpayer a different number to track their tax records. All UTR numbers have ten digits, and once you get your UTR number, it stays with you all your life - just like your National Insurance number.

Managing your book

Whether you're just starting or are an existing business, keeping good records is one of the most important things you can do. Doing this ensures your company is running as smoothly as possible. Keeping accurate bookkeeping records makes your accounts and tax returns up to date. It makes sure that you are tracking your daily expenses and running costs. It can also increase your profit margin.

Forming A Limited Company

As a new business owner, you'll probably be excited to get your company registered so that you can start trading and getting paid. Incorporating your limited company is relatively straightforward. There are just three simple steps:

Choose your director and shareholder/s

Your company must have at least one director and one shareholder. You can act as both director and shareholder of your own limited company. However, you must still meet the criteria set out by the Companies Act 2006.

Choose your office address

You will need to choose a registered office address for your company, which must be in the UK. It does not have to be the same as your trading or business address, and it can be a private residence.

Registration

You will need to register your company with Companies House, and you can do this online, by phone or by post. The process can usually be done within 24 hours.

How often should I do my bookkeeping?

If you're a business owner, keeping track of your finances is critical to your success. Accurate bookkeeping and accounting give you the information you need to make strategic decisions, avoid costly mistakes, and ensure that your business stays in compliance with the law.

You might have heard that keeping track of all your financial records as a small business owner is essential, but do you know why? Below are some of the top reasons why good bookkeeping practices matter for small businesses:

Doing your bookkeeping regularly reduces the chance of errors and allows you to understand how your business is performing clearly. This will help you spot bad spending habits and make better financial decisions.

Good bookkeeping makes tax time more accessible by helping you organize all of your receipts and expenses. It can also prevent an IRS audit by ensuring that you're reporting everything correctly.

Good record-keeping practices can help keep disputes with customers down because you'll always have documentation of agreements made with them.

If your company ever gets audited or sued, having accurate books can protect you from legal penalties or lawsuits.

If you ever want to sell your business one day, it will be much easier if all of your records are organized and easy to access.

Business expenses that can claim as Limited Company

As a limited company director, all you want is to run your business in the most tax-efficient way. And one way to achieve this is to claim allowable business expenses correctly.

Allowable expenses can significantly reduce the company's Corporation Tax liability and avoid overpaying and losing out on company profits. It's necessary to know what's allowed and what's not.

What expenses can you claim?

- Mobile
- Broadband
- Postage
- Office equipment
- Stationery
- Printer and cartridges
- Software
- Christmas parties and staff event

Understanding what Dividend is.

When a company makes money, it can spend it on business expansion and other growth strategies or pay some of that money as a dividend to shareholders.

A dividend is a payment made by a company to its shareholders out of its profits (or reserves). It is the portion of corporate profits paid out to stockholders. When a company earns a profit or surplus, that money can be put to two uses: re-invested in the business (called retained earnings) or paid to the shareholders as a dividend.

Companies may pay dividends in cash, shares of stock, or other assets.

Corporation Tax

If you're a limited company, you'll pay Corporation Tax on your profits. The current rate of Corporation Tax is 19%.

It means you pay £19 for every £100 of taxable profit you make. The rate of Corporation Tax was due to drop to 17% in 2020, but the government recently announced that it would be holding the rate at 19%.

You should budget to pay this tax bill on time. If you do not, HMRC will charge interest on any late payments.

You'll have nine months after the end of your accounting period to pay any Corporation Tax that you owe. HMRC will then send you a 'notice to deliver a Company Tax Return', which will outline your Corporation Tax payment deadline. If you have already filed your annual accounts with Companies House and have a CT600 form handy, you can use this when filing your tax return.

You can pay your Corporation Tax online.

Important deadlines and penalties

Your Accounts for Companies House must be complete no later than nine months after your company's financial year-end. You may be charged a penalty of £150 if you fail to submit your accounts by the deadline.

You need to submit your accounts and corporation tax return to HMRC no later than twelve months after your financial year-end. If you don't, you will receive a £100 fine.

Financial Year

The financial year is a business's period to prepare its accounts and tax returns. The tax payable will be based on a business's profit during the financial year. Also, the financial year ends on 30th December of each year for companies with annual accounts. For non-annual accounts, the end of the financial year is determined by when the company's accounts are closed and filed with the Companies House. The accounting period will vary depending upon whether you're a public limited company or a private limited company.

How we manage your account

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

01 Send us your financial information

You can send us your information as you go along by email, letter or post. You can also upload documents to our secure server.

02 We prepare your accounts and tax returns

When we have received all the information we need from you, we will complete your accounts and tax returns and send them to you for approval.

03 You sign and submit with HMRC

Once you have approved the accounts and tax returns, you sign the accounts and return forms. Then we finalise everything for submission to HMRC.

How to pay yourself as Director/Shareholder in a Limited Company

As a limited company director, you may consider taking money out of your company. There are several ways to do it, and it is vital to understand the tax implications of each.

The most typical way for a limited company to pay its owner is through a salary and dividends. The compensation is subject to income tax and national insurance contributions, and the dividends are not.

Salary

A company must have a PAYE scheme to pay directors or employees. It must deduct income tax (PAYE) and employee's national insurance contributions from the gross compensation paid. Then pass these on to HMRC together with the employer's national insurance contributions for each pay period.

Dividends

A dividend is a share of the company's profits after paying corporation tax. They are usually declared when the company's annual accounts are produced but can be paid during the year. So long as there are sufficient profits available after paying corporation tax

When must you register for VAT?

Most companies must register for VAT if their turnover exceeds £85,000 (2020/21) in any given twelve months. However, there is a process known as voluntary registration, which can be used to your advantage.

If you supply goods or services to customers registered for VAT, they can reclaim the VAT you charge them on your invoices. It means they are effectively paying the VAT on your behalf, so the VAT cost will not impact their business. It could be beneficial to register for VAT voluntarily before reaching the threshold in this scenario.

HMRC Investigation

You may have heard about HMRC investigations or know someone who has been investigated. This is how the process works.

HMRC randomly select tax returns every year. They do this to check that the figures you have submitted are correct. Sometimes they will also choose returns to investigate because the figures look wrong. For example, if you have claimed a high level of expenses compared with others in your business sector.

Suppose HMRC chooses to contact you. It will usually be by letter asking you to provide them with further information about why you have made a particular claim or expense item on your return. You would be given a certain amount of time to respond and provide the relevant paperwork.

What happens next?

Suppose you can provide the necessary paperwork. In that case, HMRC may accept your figures and close the enquiry without any further action against you. If they cannot, they will ask for other information from you. Or open a full-scale investigation into your affairs, which may involve visiting your home or place of work. It can happen even if there is nothing for them to find. The costs involved in this could be considerable and stressful for all concerned, so it is always best to keep good accurate records and prove.

Insurance for your business

When you're starting your business, there are several things you'll need to put in place. One of the most important is insurance. Having the proper coverage can help protect your business from potential financial loss. To do that, you need insurance. But what kind of insurance will you need?

Here are the top three you should consider getting:

- Professional Indemnity Insurance (If you are selling your skills and knowledge)
- Employer's Liability Insurance (If you have employees)
- Public Liability Insurance (If a customer suffers loss or injury)

Form your limited company with us.

For more guidance on forming your limited companies, call us today on 020 8580 9523, and one of our experienced accountants will be glad to assist you.

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