



ACCURACY ACCOUNTING & TAX

ACCOUNTING FOR THE FUTURE

TRADING AS A LIMITED COMPANY

LIFE AFTER INCORPORATION

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Becoming a Limited Company

Limited Company

When you decide to go into business, it is essential that you seek proper accountancy advice. They will be able to advise you whether you should trade as a sole trader, partnership or limited company.

This will be dependent on many factors which Accuracy Accountants will be able to help you with. Trading as a limited company does have some advantages over other trading statuses, however, with these advantages comes slightly more compliance work.

As a limited company, you will be taxed on your profits and depending on how you withdraw your money from the company, this may also be taxed.

Losses may be carried forward to offset against future profits and this short publication will help understand the basics of being a limited company.

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1. The importance of seeking professional advice

Your accountant should not advise that being limited is the best option for you without being able to explain clearly the reasons why, so that you fully understand the benefits to you.

Once you have decided that a limited company is the right option for you, firstly you need to register the business with Companies House along with appointing yourself as a director and detailing any shareholders within the business. Again, your accountants will be able to assist with this.

You can form a company at a low cost online. Once your company has been incorporated Companies House will send Articles of Association, a Certificate of Incorporation and Register and Share Certificates.

You will also have to choose your registered office and this should be, in our opinion, your accountant's address. This allows all compliance correspondence to be sent directly to your accountants to deal with.

Once the company has been formed it is in its own right, a separate legal entity to yourself and you. Therefore, you need to open a business bank account and once this has been completed, you are ready to trade.

2. Income Tax

Any profits that your company earns will be subject to tax. Unlike a sole trader or partnership, there is no national insurance charged on your profits; you can remove your money from the company in various ways.

Tax may also be chargeable personally, depending on how you withdraw your money. Again, this should all be fully explained by your accountant.

3. VAT

You can register for VAT at any stage of trading via a limited company, however, you do have to register once you break the VAT threshold. We would always recommend that the client contacts us so we can help them register for VAT and determine what scheme they should be on.

For example, there is the flat rate scheme where you only pay a percentage of your turnover directly to HMRC and for some industries, this is beneficial for them. However, it is always worth comparing the two schemes to see which is more beneficial.

4. PAYE

As a director, it is highly likely that you will be employed by the company, therefore, you need to ensure that you operate PAYE and that you comply with submitting the returns under RTI. You will also have pension regulations which need to be complied with.

We would also recommend paying yourself and any staff monthly as there are only 12 transactions a year, whereas if you pay weekly, that is 52 transactions and therefore, entails more work.

With all the above, we are either able to assist you fully in dealing with all aspects, work with you online or help you to ensure that you can do this yourself.

5. Income and expenditure

When declaring your income and expenditure to HMRC, there are certain expenses that can be claimed. Any expense used for the sole purpose of the business can be offset against business expenses.

Also, any money you take via PAYE can also be offset against the company's profits. You need to ensure that you keep all of your records for 6 years after the financial year end as this is required by HMRC. Expenses are, but not limited to, the following: -

- Wages
- Consultancy fees
- Telephone
- Print and postage
- Stationery
- Advertising
- Travelling
- Motor expenses
- Repairs and renewals
- Subscriptions
- Accountancy
- Computer consumables
- Professional fees
- Rent or use of home (if you work from home)
- Insurance etc.

If ever you are in doubt of what you can claim, you should always contact us to be certain.

6. Keeping your records

Keeping good income and expenditure records is necessary to meet the requirements of HMRC as, not only will you know how your business is performing, but it will also enable you to make informed business decisions.

With Making Tax Digital (MTD), this is even more important as you will be required to submit quarterly returns directly to HMRC.

7. HMRC enquiries

Anyone can be investigated by HMRC. Currently, HMRC is using a system called “Connect” which gathers data from all sources to decide which businesses and individuals should be investigated.

Once their system selects a client, it goes to an analyst to review. At present, over 90% of investigations are launched this way. They also, on fewer occasions, conduct random investigations.

In addition to this, there are compliance checks which will often cover income tax, PAYE and VAT.

With a compliance visit you should ensure your books are organised and well presented. If a VAT Inspector walked into an office to carry out an investigation or compliance visit on a client and their books were all nicely organised, kept on a computerised system and easy to follow, this would give the investigating officer more confidence than it would with someone who has bags of receipts and records which are not kept properly.

The outcome is likely to be more favourable and it will take a lot less time to deal with.

8. Software

There are many different bookkeeping software packages on the market. We deal with all the major software houses and it is essential that we understand your business to determine what you require from your software package.

For example, some of our clients will use a system where they can raise invoices, take payments online, have their bank account automatically fed into their bookkeeping system, issue statements, see what clients are paying and which clients owe and use the system to its full potential.

Others will just want a system to be used to summarise their income and expenditure, ready to supply to their accountants at the end of each year. A meeting or phone call will enable us to assess what you require from your software package and we will recommend the best one that suits your requirements.

9. Additional compliance

As a limited company, there is additional compliance that needs to be completed and submitted to Companies House.

There is a PSC Register (People with Significant Control) that needs to be completed annually on the anniversary of the formation of the company. This is completed and submitted online directly to Companies House.

Accounts also need to be submitted to Companies House within a deadline. These accounts do not have to be a full set of accounts but can instead, be an abbreviated copy, which is again, submitted online.

10. Personal Tax Return

Even when trading as a limited company you still have to register and declare your income from the company to HMRC.

This should be declared up to 5th April each year and needs to be submitted by the following 31st January.

On the tax return, you must declare your PAYE income as well as any dividends and any other forms of income received, whether it is rental income, bank interest etc.

11. Summary

We hope you have found this information useful. Being in business is one of the biggest challenges that you can take on; but it can also be one of the most rewarding and can change your life for the better.

Good luck with your business and, if you would like any assistance, please contact us.