Guide to Running a Limited Company

Putting the Pieces Together

Contents

Company Foundations

Before you set about running a limited company, it is vital to check that you have the right foundations in place for your business.

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 normally possible to use your accountant's address as the registered office for the 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 your accountant's or trading 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.

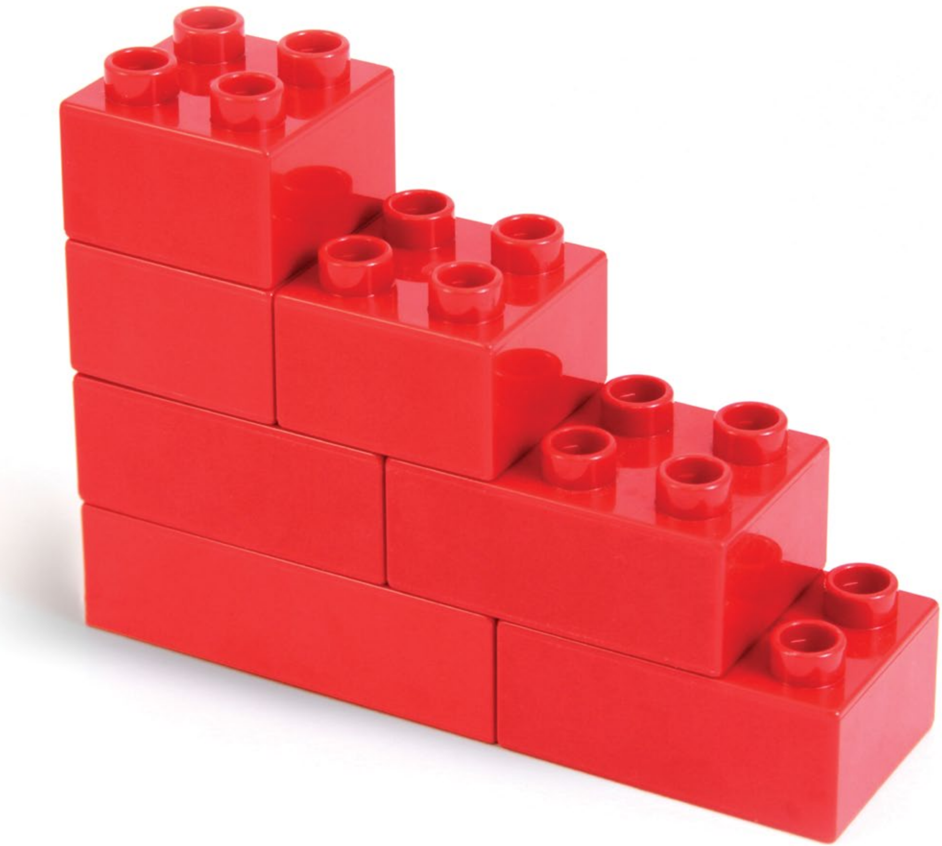
It is important to note that anyone owning standard "ordinary" shares in the business will be entitled to dividend income if this is paid out on this class of shares. They also hold a stake in the company in the event that it is sold or wound up.

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.

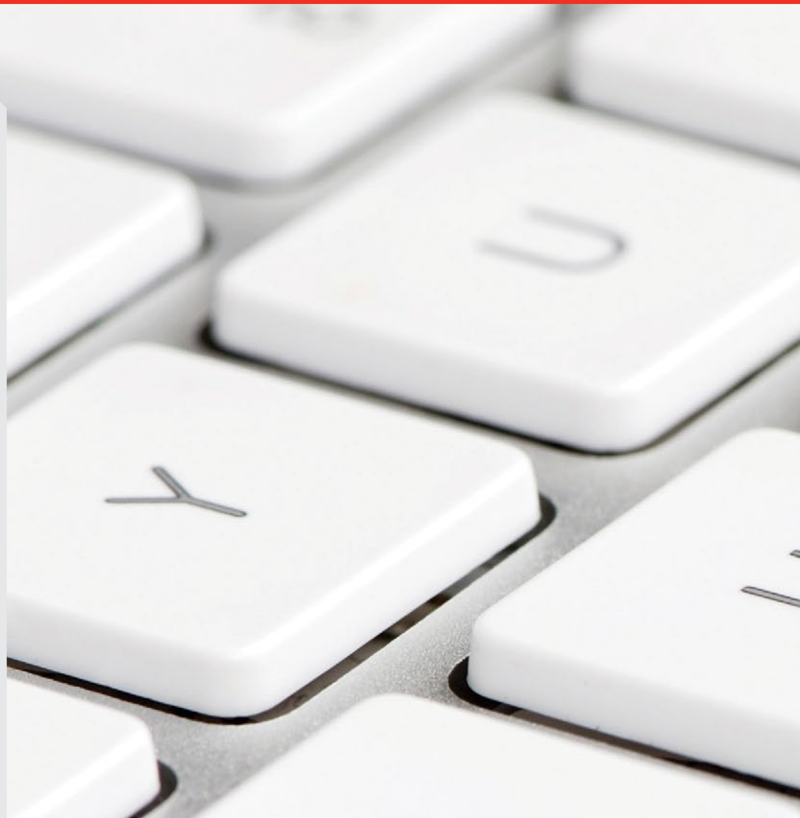


Insurance

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 covers you against third parties if they sue you as a result of your advice or actions.

Employment, PAYE and 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 Murphy Salisbury, we can take care of this for any clients.

Paying Staff

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

HOW IS INCOME TAX CALCULATED?	HOW IS NATIONAL INSURANCE CALCULATED?
Each year, there is a tax-free allowance which individuals are entitled to earn before they pay any Income Tax.	Similarly 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.
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%.	For earnings over the NIC free allowance, the employee is required to pay National Insurance at the standard rate.
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 a higher earnings bracket. If individuals earn over this limit, they pay a reduced NIC on the remainder of their income.
There is also a "super tax" rate for high earners. At the date of print, if an individual has income exceeding £150,000, 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.	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 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

Under the complex rules of Auto Enrolment, all employers have to provide for their qualifying workers. The scheme and the accompanying contribution requirements are being phased in gradually until 2018.

There is a series of phasing dates for employers, but you may decide to opt-in early if this is suitable.

Employers must initially contribute one percent of the employee's salary, increasing to three percent when employees make a personal contribution of four percent. Combined with the one percent tax uplift, a minimum of eight percent will be contributed to the fund.

While an employee can opt-out, employers still need to initially enrol them and re-opt them in regularly.

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 notify HMRC each time a payment is made to an employee. This is known as Real Time Information (RTI) and the submissions you are required to make may include the following:

- *Employer Alignment Submission (EAS) to align the records currently held by HMRC to your payroll.*
- *Full Payment Submission (FPS) to provide HMRC with details of the payments and deductions made each time an employee is paid.*
- *Employer Payment Summary (EPS) to notify HMRC of any changes to the tax and NI due, as well as a nil payment if no employees have been paid in the relevant period.*

In addition to this you may also be required to prepare the following:

- **P60** *which is given to each employee at the end of the tax year.*
- **P11D** *which 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.*

At Murphy Salisbury, we provide a payroll bureau service at a competitive cost. If you would like a quotation without obligation, please get in touch.

Automatic Enrolment

A new law means that every employer must automatically enrol workers into a workplace pension scheme if they:

- are aged between 22 and State Pension age
- earn more than £10,000 a year
- work in the UK.

This is called ‘automatic enrolment’. It affects all employers regardless of the number of people they employ and includes putting those who meet the criteria into a workplace pension scheme and contributing towards it.

Employers will be introduced gradually according to their size and the reference of their PAYE scheme.

Therefore, employers need to find out:

- When their staging date is – this is determined by when your company was set up. If it was after 1 April 2012 the date will be later.
- Nominate a contact and develop a plan – The Pension Regulator (TPR) website (*www.thepensionregulator.gov.uk*) contains an interactive tool.
- Check existing processes and software – can it cope with calculating contributions?
- Assess your pension arrangements – whether to adapt an existing scheme, set up a scheme or join the government arranged NEST scheme.
- Consider the additional costs – you will need to make sure you are meeting the minimum contribution rates.
- Assess your workforce – confirm their age, earnings and whether they are a UK worker.
- Consider how you will manage your payroll function – the cost in terms of time and money should not be underestimated.

Murphy Salisbury can help your business prepare for auto-enrolment in a timely and efficient manner. There is a free guide to auto-enrolment on our website *www.murphysalisbury.com* as well as questions and answers section.

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 for VAT if the annual turnover of your company exceeds the VAT registration threshold. 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 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 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 should be advised that your company exists. HMRC will then contact you and ask you to complete a form CT41G 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.

Dividends

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.

You should consult with your accountant beforehand to agree an appropriate profit extraction method for your business and 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. If a company is caught by IR35, 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 Murphy Salisbury for more information and advice regarding IR35.

Dividend Taxation Explained

The way that tax is applied to dividends changed substantially in April 2016 – and those running a limited company need to be aware of these changes.

Under the April 2016 reforms, the old Dividend Tax Credits were abolished and dividends, formerly the tax-friendly alternative to salary, were made subject to new tax liabilities.

The old 10 per cent tax was abolished and replaced by a new flat rate personal dividend allowance of £5,000.

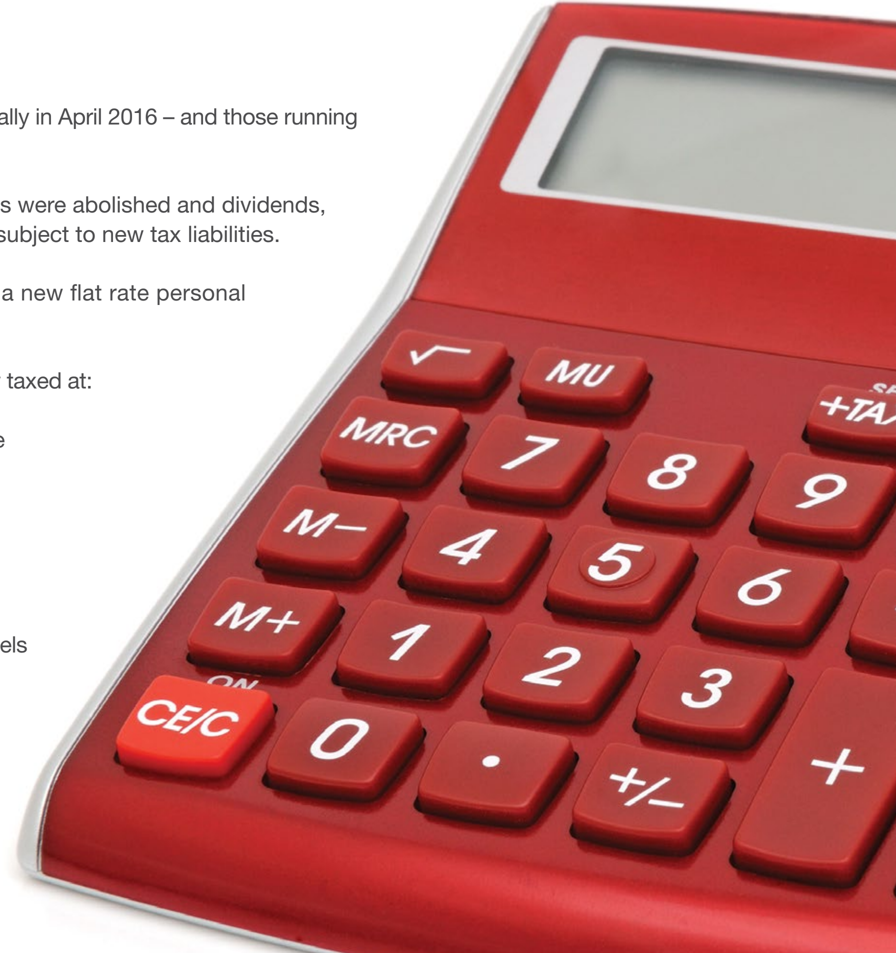
Any dividends received in excess of this allowance are now taxed at:

- 7.5 per cent if dividend income is within the standard rate (20 per cent) band
- 32.5 per cent if dividend income is within the higher rate (40 per cent) band
- 38.1 per cent if dividend income is within the additional rate (45 per cent) band.

The Government has essentially made it very clear that it feels businesses should only pay staff and owners through a traditional salary system.

How will the changes affect your shareholders?

The following examples should help to put things into perspective, outlining how the dividend tax changes could affect shareholders of all shapes and sizes.



Dividends (continued)

Example 1

"I receive less than £5,000 per year in dividends"

This shareholder won't have to pay tax on dividend income as it is within their Dividend Allowance.

Example 2

"I receive dividends of £600 from shares invested in an ISA"

No tax is due on dividend income within an ISA, whatever rate of tax this shareholder pays.

Example 3

"I have a non-dividend income of £6,500 and a dividend income of £12,000 from shares outside of an ISA"

With a Personal Allowance of £11,000, £4,500 of the dividends are under the threshold for tax. A further £5,000 comes within the Dividend Allowance, leaving tax to pay at Basic Rate (7.5 per cent) on £2,500.

Example 4

"I have a non-dividend income of £20,000, and receive dividends of £6,000 outside of an ISA"

This shareholder won't need to pay tax on the first £5,000 of dividends due to the Dividend Allowance, but will pay tax on £1,000 of dividends at 7.5 per cent.

Example 5

"I have a non-dividend income of £18,000 and receive dividends of £22,000 outside of an ISA"

Of the £18,000 non-dividend income:

- £11,000 is covered by the Personal Allowance
- The remaining £7,000 is taxed at Basic Rate

Of the £22,000 dividend income:

- The Dividend Allowance covers the first £5,000
- The remaining £17,000 of dividends are taxed at the Basic Rate (7.5 per cent)

Our experts at Murphy Salisbury can make sure you that your limited company is as tax-efficient as possible at all times.

If you would like us to explain Dividend Tax in more detail, please speak to us.

Personal Taxation

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 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.

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 Murphy Salisbury, we have a dedicated tax team with specialists in personal tax who can complete the tax return for you and confirm your tax liabilities and payment on account position. We can provide you with a fixed fee price incorporating the preparation of your personal tax return along with your company accounts and taxation affairs.

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 ought to 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

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. 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.
4. Review which software / system will be user-friendly for you / your accounts team.
5. Consider your backup arrangements and the security of your accounts data.

At Murphy Salisbury, we work with most bookkeeping software packages on the market. In particular, we are an accredited Partner of Sage and have a specialist team in-house to provide system setup, training and support. We also use online accounting systems with many of our clients, using 'Sage One', 'Iris KashFlow' or the 'Xero' online accounting system. 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

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.

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.

Annual Return Form

Every limited company is required to file an annual return form with the Registrar. This form confirms the registered office, officers and shareholders of the company. Companies House charge a filing fee of £30 for this each year (or £13 if you file this electronically).

TIMETABLE

PAYE	• PAYE / NIC deductions need to be paid to HMRC either on a monthly or quarterly basis. The payment is due by 19th of the following month (22nd of the month if paying electronically). • Full Payment Submission (FPS) is due each time an employee is paid and, when required, Employer Payment Summary (EPS) by 19th of the following month. • P60s are due after the end of the tax year – they need to be distributed to employees by 31st May following the tax year. • P11D(b) and P11D forms need to be completed if any benefits in kind or expenses are provided to any employees – these need to be filed by 6th July following the tax year. • Class 1A NIC is paid by the employer on any taxable benefits in kind – this is payable to HMRC by 19th July following the tax year.
VAT	VAT returns are normally completed on a quarterly basis – these are due at the end of the month following each quarter (there is a seven day extension if you file online and pay electronically).
Accounts	Annual accounts need to be filed within nine months of the accounting period end date.
Annual Return	This AR01 form is prepared at the anniversary of the company's incorporation – this is due within 28 days from the return date.
Corporation Tax	Payment of Corporation Tax is due within nine months and one day after the accounting period end date. The annual accounts, Corporation Tax return and computations to be sent to HMRC within 12 months of the accounting date.

Working with an Accountant

It is vital that you take care in choosing the right accountant to work with. Here are our suggestions of what to look for:

- Your accountant partner ultimately needs to be someone that you feel comfortable with and that you trust.
- You should also confirm that your accountant is appropriately qualified and affiliated with their national governing body. Many people call themselves "accountants", but they may not actually have any qualifications.
- You should confirm the history of the accountancy firm to ensure that they have experience in practice.
- You should ask for testimonials or references from other clients they act for.
- If you require additional support or services, you should check that the accountant can offer these, for example, bookkeeping training, payroll bureau service, audit, management accounting and tax planning.
- You should ask your accountant to confirm their fee structure upfront.

At *Murphy Salisbury*, we work with businesses of all sizes and across most industries. We can provide an accounting package to suit your requirements, so that we help with as much or as little as you want. Some of our clients prefer to outsource their whole accounting operation to us, whilst others maintain these themselves and we work with them to meet the annual accounts and taxation work.

It is, however, vital that you know exactly how your business is performing over the course of the year. We can assist you with this by providing monthly or quarterly management accounts or by helping you design an accounting reporting system to prepare this information yourself.

At *Murphy Salisbury*, we have been in practice since 1976 and have built up a good experience and reputation in that time. Our business services team specialises in working with start up businesses and would be pleased to meet with you to discuss your new business.

Why not contact us to arrange a free consultation with our Business Services Team? This consultation is without any obligation and will help you go through your current position and future plans. We would be pleased to provide you with a fixed fee quotation for the services you require.

Please email enq@murphysalisbury.com or call us on 01789 299076 – we look forward to hearing from you!

What our clients say about us

“I would recommend them as I have always received good service and advice. I am very happy with everything they have done for us”

“We get specialist knowledge which enables us to make the right decisions based on specialist advice”

“When you are in business, you look for professional support you can rely on. That is what Murphy Salisbury give us”

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