



Competex

Working through a Limited Company

www.competex.co.uk

“ There has never been a better time to start a business in the UK... ”

You are now embarking on a new chapter in your life, setting up your own business and doing work you really enjoy. You can work where and when you want. You can pick and choose the work you do. Nobody will tell you when to retire! In today’s technology-driven world, you can work from anywhere in the world. Or you can create a working environment at home. This is the joy of being your own boss.

However, leaving the secure world of permanent employment and setting out to work for yourself has its challenges. There are rules and regulations to be negotiated, and conventions to be followed. You will need to appoint an accountant to help you with all this, and it makes sense to appoint an accountant who really understands the nature of the work that you do.

I set up Competex 20 years ago, and in that time we have become known for looking after the very specific needs of small businesses. Many of our clients have one or two directors, who are also employees of their companies. We look after those who are looking to form a new company or those who have already done their own setup and wish to engage the services of a reliable accountant.

This guide gives a comprehensive overview of all the issues associated with working through your own limited company. From forming your company at Companies House, to getting paid for the work you do, to managing your records, to planning your own personal finances, we aim to cover all the major issues you will encounter over the lifecycle of running your business.

I am certain we can help you with your new venture. Please give us a call on 01737 234567.



Charles Fowler TD DL FCA

Director

Competex & associated companies

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Setting up your limited company

What is a limited company?

A limited company is a company where the liability of the shareholders is limited to what they have invested in, or guaranteed to, the company.

A limited company has a separate legal entity from that of the shareholders, and small companies owned by one or two individuals who offer professional services through their own company are often referred to as personal service companies.

Temporary workers work through different trading structures according to the type of work that they do. These includes (but is not limited to):

- Limited company
- Sole trader
- Umbrella company (Competex Pro)

It is important that you choose the best working options for your needs, and we can advise on this.

Limited or umbrella?

Wherever or however you work, even as an independent professional, HMRC expect you to be on a payroll somewhere. HMRC might expect you to be treated as an employee of your client, or possibly of your agency, but since this does not suit either of these parties, the only alternative is to be an employee of your own company, or of a payroll umbrella company.

Independent professionals working in the private sector are required to work via a limited company. Until April 2017, this was also true for the public sector, but new HMRC rules now govern the public sector resulting in a change to the way contractors must operate in this sector. In the public sector, it is now much easier to work through a payroll umbrella company. Please refer to the Competex Pro guide 'Contracting in the Public Sector: Limited or Umbrella?', available at the Competex website.

Why do independent professionals in the private sector need a limited company?

As an independent professional, working through your own limited company clearly establishes your employment status under HM Revenue & Customs (HMRC) regulations. As well as being the owner of your company you are also the director and an employee of your company, leaving no grounds for HMRC to suggest that you are employed by

either your agency or your client.

For this reason, in order to protect themselves and their clients from the many aspects of legislation set out in this guide, agencies advise that all candidates put forward for assignments in the private sector work through a limited company. Part of appearing professional when presenting yourself for assignments, therefore, is to have set up your own limited company. It implies a commitment to transacting business in accordance with standard practice, which will reassure both providers and clients.

From the point of view of the agencies and the clients you deal with, it will be clear that they are not expected to bear the cost or the legal burden of employing you. As your own employer, you are responsible for funding holiday pay, sick pay, pension contributions, medical insurance, etc. The clients and agencies also know that they can benefit from your services for a short period of time, and then let you go, without incurring termination or redundancy costs.

When you work through a limited company you are not working as a self-employed individual. You are an employee of your own company and you pay tax and National Insurance (NI) under Pay As You Earn (PAYE) on all salary that you draw. As both the employer and the employee, you will have to fund both Employer's NI and Employee's NI out of your fee income, and this must be factored into your costs when setting your daily rate.

If you carry out assignments through an agency, the Agency Workers Directive is a consideration, and you will be required to work through a limited company in order to avoid the consequences of this legislation.

Finally working through a limited company offers you the chance to control the image you project to the business world through your company name, business cards, headed paper, email, and website.

Domain name

You will need to use email and you should plan to set up a small website, and you will therefore need a suitable domain name that works well with your company name. We therefore recommend that you check the availability of a domain name to match your company name, and that you acquire it at the time you set-up your company. We can help you with this if required.

When should I set up my company?

Many people choose to set up their limited company as soon as they decide to make a career move into freelance or consultancy work, giving them a platform from which to market their services. Setting up early also reduces the amount of last minute admin you will have to do when you start your first assignment. If later you find that you do not need to work through a company it can be dissolved at minimum cost.

Alternatively, you may choose to wait until you have won your first assignment before you set up their company. The process is extremely quick and it can be done electronically within 24 hours if arranged by Competex.

We recommended that you use Competex to set up your company even if you will not be using it immediately. This will be slightly less expensive than if you come to us after setting it up yourself. Apart from the cost of incorporation, we will not charge you fees until you start your first assignment, but you will be correctly registered with the statutory authorities and thus avoid any compliance difficulties.

Summary of corporate personnel and their responsibilities

Each company has shareholders, directors, and usually (but not always) a company secretary.

- The shareholders own the company.
- The directors run the company.
- The company secretary represents the directors in matters regarding the statutory authorities and compliance issues.

Most companies also have employees, who work for the company. As well as being a director and a shareholder, you will also be an employee of the company. You may also choose to employ someone else to take care of day to day personal administration, and it might be appropriate to employ your partner or spouse for this purpose.

Forming a limited company

To form your company, there are certain items of information required by Companies House:

- The proposed company name. You should check the Companies House website (www.companieshouse.gov.uk) to make sure that the name is not already being used. Also see above about domain names
- The names and personal details of all your shareholders
- The number of shares to be issued to each shareholder. For companies of this size it is convenient to issue a total 100 shares each of £1. Ownership of shares not only indicates ownership of the company but the share capital also provides initial working capital for the company. The money should be paid by the shareholders into the company bank account
- The names and personal details of all your directors
- The address of your registered office
- The name and contact details of your Company Secretary

Your company is required to have a minimum of only one shareholder and one director, but you may wish for your spouse or partner to be involved. If you plan to split the share ownership with your spouse or partner, you need to understand how HMRC might look upon this and also how it would affect your tax position if you pay dividends (see below concerning dividends and income shifting). We therefore recommend that you talk with us before making any decisions about this.

All company directors are required to complete a personal self-assessment tax return at the end of each financial year regardless of their level of income, so you should be aware of this.

We act as Company Secretary and registered office for all our clients, which helps us to create robust compliance arrangements. For example, the address of your registered office determines your HMRC office for Corporation Tax purposes, and there are significant advantages to be had from using the same tax office for all our clients.

Security of personal information at Companies House

Companies House maintain both a private and a public register, and we like to set up new companies so that your personal details are completely removed from the public register. This gives you complete privacy, reduces to a minimum the likelihood of identity theft, and prevents unwanted mail and intrusive contact originating from this source.

- Firstly, we use our office address as your “Single Alternative Inspection Location” or SAIL address. This address appears on the public record and shows where your company records may be inspected.
- Secondly, and for an extra fee, we will use our office address as your “Director’s Service Address”. This removes your home address from the register of directors on the Companies House public register.
- Thirdly, we register your company under the Companies House “PROtected Online Filing” (PROOF) scheme which is designed to safeguard you against fraudulent filing of documents (eg changes of address) by unauthorised individuals, thereby protecting you against corporate identity theft.

Company documents

Once your company has been incorporated, we will provide you with the following documentation to keep on file:

- Certificate of incorporation. This is the company’s birth certificate and contains the company number, which you may need when signing contracts with a client or provider. It is also required when setting up the company bank account.
- Share certificate(s)
- Memorandum and Articles of Association

Routine company correspondence

The address of your registered office will appear on the public register, and on your printed letterhead, and is the address to which legal documents may be served on the company if required. It is also the address used by HMRC and Companies House when corresponding with your company.

It is not appropriate to invite others to communicate with you via your registered office address. Please use your normal place of work/home address for all other routine correspondence, including correspondence with banks, providers, and insurance brokers.

Working towards your first assignment

Summary of initial tasks

There are certain tasks to be completed when you first incorporate your company and others when you are about to start your first assignment, and these are listed below showing who is responsible.

Competex:

- Company incorporation with Companies House
- Corporation Tax registration with HMRC
- Value Added Tax (VAT) registration with HMRC. This cannot be done until you are about to start your first assignment, so it is important that you notify us when this happens
- PAYE registration with HMRC. This cannot be done until you are about to pay yourself

You:

- Setting up the company bank account
- Arranging professional indemnity insurance
- Signing the contract with your provider or client
- Opting-out of the Employment Agency Regulations. This is relevant only if you are working through an agency, and we confirm that it is acceptable for you to opt out.

Setting up the company bank account

Because your company has a separate legal entity of its own it must have its own bank account. You have the choice of using branch banking with additional internet banking facilities or solely internet banking. Branch banking is usually more expensive, and for corporate bank accounts we recommend that you need only internet banking.

You will be able to open the company bank account as soon as your company has been incorporated. We suggest that for a corporate bank account you use a traditional bank, rather than one of the 'new' banks, as the traditional bankers' systems are generally more robust. You are also advised to check that the bank of your choice is a member of the 'fast payments' scheme.

The process is sometimes slow and so you would be advised to obtain the relevant documentation from the bank of your choice as soon as possible and to submit this to the bank as soon as the company has been incorporated. The bank will need to know the company number and the date of incorporation and may need to see the certificate of incorporation. The bank's documentation includes a board resolution officially appointing them as your bankers,

and we would ask you please to send us a copy of the completed documentation together with account details for the company file.

Most banks will require their documentation to be signed by two officers of the company so, if you are the sole director, the bank may require us to countersign the mandate. Please be aware that we would not ever become a cheque signatory on your company account.

You should pay the share capital into your new company bank account, but do not pay any other funds into the company bank account until you start your first assignment and pay in your first fee income. This enables your company to remain dormant, saving you unnecessary costs in the possible event that you decide to go back to full-time employment and therefore no longer need the company.

Daily rates

You need to spend time working out your daily rate before you come face to face for the first time with prospective clients.

When working out your daily rate, keep in mind that your former employer incurred extra costs over and above your gross salary, and these costs will now have to be paid out of your fee income. They fall into four categories:

- Employer's NI, which as an employer (all be it employing yourself) you will now have to pay out of company funds (i.e. fee income)
- Other items which are not personal benefits but which will now have to be paid for out of company funds, such as:
 - Accountant's fees
 - IT equipment, broadband, etc
 - Office stationery, telephone, etc
 - Annual professional indemnity (PI) insurance
- Personal benefits that will now have to be paid for out of company funds, such as:
 - Pension contributions
 - Private health insurance (although this has P11D implications)
- Personal benefits that will now have to be paid for out of your net salary, such as:
 - Personally owned car

You should be realistic about the number of days in the year that you are likely to work. Having done the calculation, you also need to be realistic about the fee you intend to charge, particularly if this is your first assignment and you have yet to prove yourself.

As a starting point you might choose to start with your latest gross salary. To that you should add all the extra costs outlined above, and then divide the total by the number of days in the year that you anticipate working in order to arrive at a daily rate. You could refine this by producing one rate for short assignments and another for longer assignments where the number of days is more or less guaranteed.

Above all, remember that your daily rate includes an amount that will be used to pay Employer's NI contributions, and in negotiations you may need to point out to clients that whilst they will not be paying Employers NI on top of the fees they pay you, it must instead be paid by you out of the fees they pay you.

Be quite clear about how much of your daily rate will go to you and how much will be paid as tax and NI, as it is counterproductive to grumble about it later on! As a guide, taking the year as a whole, you might expect that just under half of the total amount you devote to payroll will go to HMRC as tax and NI (Employee's NI and Employer's NI). Obviously, however, the more you earn the more tax you will have to pay.

Engaging Competex as your specialist accountant

When leaving the secure world of permanent employment to start up on your own, the initial administration required to set up your own company can be quite daunting, and it will benefit you greatly if your accountant fully understands your needs. The Competex team understands the issues faced by independent professionals and small businesses, and uses bespoke accounting systems and software that has been designed with your business in mind.

Our clients are based all over the UK, and our systems are set-up so that clients can work on a remote basis wherever and whenever they choose. As a client, you require only a basic level of IT skill.

When you first appoint us we will ask you to provide standard proof of identity for all shareholders, directors and employees of the company. This is usually achieved by supplying a copy of the back page of your passport and a copy of a utility bill (dated within three months) countersigned by an approved individual who has known you for two years (similar to the requirement for a passport application).

If the details are received early enough your company will normally be incorporated on the same day, and it would be helpful you were contactable during this time in case there are any queries to be resolved.

Registering the company with the statutory authorities

As well as registering with Companies House, your company must also be registered with HMRC for VAT, PAYE and Corporation Tax purposes. We will do this for you.

If you have already set up your company yourself, but now wish to appoint Competex as your accountant, we will carry out these registrations and will look after your affairs from that point on.

As your company secretary and registered office, we will deal with routine HMRC and Companies House correspondence, ensuring that you stay compliant in every way.

Keep the company structure simple

You are strongly advised to keep the company structure simple, and by doing so you will keep accountancy fees to a minimum. It is therefore suggested that you do not use the company for the following activities:

- Property
- Investments
- Company cars

Also, you complicate issues by running multiple bank accounts and company credit cards.

Company cars attract all of the four principal UK taxes (i.e. VAT, Income Tax, Corporation Tax and NI) and in addition involve the extra administrative expense of reporting to HMRC. It is recommended that instead you use your own car and claim the maximum mileage allowance permitted by HMRC.

Other regulations

Professional indemnity (PI) insurance

Working as an independent professional can give rise to insurance issues that would not occur if you worked as a company employee.

Professional indemnity insurance covers you against the cost of litigation in case of your negligence when working on clients affairs. It protects your business against claims for loss or damage made by a client or third party if you make mistakes or are found to have been negligent in some or all of the services you provided. PI insurance will also cover legal costs.

In many professions, individuals are required to have PI insurance cover as a regulatory requirement or as part of their professional authorisation. This includes solicitors, accountants, architects, mortgage intermediaries, insurance brokers and financial advisers. Others such as consultants, advertising and PR professionals, and designers choose to have this type of insurance. In some industries, agencies will insist that you hold this cover.

The amount of cover you will need will depend on the type of work you are doing, but cover of £250,000 to £500,000 is probably sufficient for most assignments. Ultimately it depends on how much damage you could do to your client if things went wrong.

The premium for cover at this level is currently in the region of £200 to £250 per annum. If you work in a particular industry or are a member of a professional association, you should consider approaching one of the brokers that deal with your particular industry or association, as they will be specialists in your field. An insurance broker that specialises in the consultancy market, that we recommend, is Hiscocks.

In order to avoid paying unnecessary premiums, it is recommended that you wait until immediately prior to starting your first assignment before you take out this insurance for the first time.

Money Laundering Regulations

Consultants who are acting for clients in high risk sectors at director level are required to register with HMRC or with their own professional body for supervision before carrying out any relevant business activities.

In addition, anyone who is providing accountancy services at any level in the private sector, regardless of whether qualified or not, will have to register under the heading of Accountancy Service Provider (ASP). However, the public sector is excluded from the regulations. Full details of those affected can be found on the HMRC website : <https://www.gov.uk/guidance/money-laundering-regulations-who-needs-to-register>

Agency Workers Regulations

The Agency Workers Regulations exist to ensure fair working terms and conditions for temporary workers. They

stipulate that temporary workers must be given many of the same rights as permanent employees. The regulations apply to interim managers and some consultants, unless they can demonstrate that they are working through their own limited company and their contract clearly states that the client is hiring their company's services and not their services as an individual.

All temporary workers are entitled to certain rights under the regulations. These are divided into 'Day 1 rights' (such as access to facilities such as a canteen and parking) and 'Week 12 rights' (such as pay between assignments, entitlement to certain bonuses, and holiday entitlements including annual leave, rest breaks and payment in lieu of notice).

By definition, clients who hire independent professionals such as consultants do not wish to enter into such onerous agreements, as these involve extra costs and legal burdens. If you are working as a consultant, you must therefore assume responsibility yourself for such business rights, and this must also be made clear in the contract.

Employment Agency Regulations ("opting out")

These regulations affect the relationship you have with your provider, and the relationship that your provider has with your client. By default you are opted in to the regulations, meaning that your provider must pay your fees regardless of whether your client has been paid by your provider. You therefore have a degree of protection if you are opted in.

However, if you are opted in, your provider is required to carry out extensive background checks on you, and because of this they may not wish to consider you for assignments.

For independent professionals working through a limited company, there is an option to formally opt out of the regulations, and there are advantages in taking this course of action. By opting out you are showing that you are not controlled by your client, which also sends a positive message to HMRC about your employment status. This could have a beneficial effect with regard to IR35 and the Agency Workers Regulations.

It is therefore recommended that you opt out of the regulations, and this is done by signing a declaration before being introduced to the client. Your provider will help you with the documentation.

Employment intermediary reporting

Legislation introduced in April 2015 requires an intermediary or agency to submit an employment intermediary report every 3 months for any person they place into an assignment. An intermediary is any person who makes arrangements for an individual to work for a third party or who pays an individual for work done for a third party.

If a personal service company supplies more than one worker, including themselves or any subcontractors, it is considered to be acting as an intermediary. If that worker is not paid through PAYE the company will need to ensure it complies and sends a report to HMRC disclosing details about the worker for each reporting period.

Rules for letterheads, emails and websites

Once your company has been incorporated, you will be able to design business cards, letterheads and a website in your company name. These help you project the right image to your clients, but you should be aware that the

Companies Act stipulates certain information that you must include on company letterheads and the company website (and you could be fined for not doing so), as follows:

- The name of the company
- The place of registration of the company (namely England and Wales)
- The number with which the company is registered at Companies House
- The address of the company's registered office
- The names either of all the directors of the company, or of none of them, but not of only some of them.

Normally, you would print the address of the principal place of business, together with email address, telephone and fax numbers, at the top of the paper. The last four items listed above traditionally appear in small print at the bottom of the paper, and it is useful also to include here the company's VAT number (preceded by GB) so that the same stationery can be used for invoices. The wording of the 'footer' below would be appropriate in your circumstances, where the registered office is different from your principal place of business.

DIRECTOR: J AT Browne

REGISTERED OFFICE: ORCHARD HOUSE, PARK LANE, REIGATE, SURREY, RH2 8JX

REGISTERED No: 12345618 ENGLAND & WALES. VAT No: GB 123 4567 89

All company emails and replies to emails are now treated as if they are written on headed paper and as such should include items 1–5 above. All company websites should include items 1–5 above and must also include the VAT number (preceded by GB).

Please note that for routine correspondence, you should correspond from your principal place of business (usually your home address) and not from the registered office address.

Expenses and record-keeping

Pre-incorporation expenses

You will almost certainly incur expenses prior to incorporating your company, and these should be met initially from your own pocket and claimed at a later date.

You may claim for as far back as seven years, but everything you claim must be normal expenses that relate both to the business of the company and the period of time that you have been pursuing the objectives of the company, and should be supported by invoices or receipts.

Capital items, such as IT equipment, that are for use in the company may be brought into the company at any time, provided it is introduced at market value.

Do not loan any funds to your company or draw any expenses out of your company until you receive your first income. If, in the event you return to full time employment or close your company without ever having traded, it is simpler to do so without there having been any transactions.

Claiming expenses

The correct procedure is for your company to charge any expenses to your client and for you to charge your expenses to your company. Do not shortcut the process and claim personal expenses directly from your client.

Because you are now an employee of your own company, you should claim all allowable expenses from your own company, just as you did in your former employment. To use HMRC terminology, these expenses must have been incurred “wholly, exclusively and necessarily” for the purpose of the business, and we will be able to guide you as to what expenses are allowable.

It is acceptable for your client may pay certain allowable expenses on your behalf, such as air fares and hotel accommodation, directly to suppliers but your client should not reimburse you personally for any expenses that you have incurred.

The amount you claim from your own company will often not be the same as the amount invoiced to your client, since for example there may be additional marketing or administration expenses, differences in mileage rates (you may be claiming more, or less, than the allowable HMRC rate from your client), or some of the expenses you claim from your company may be included in the daily rate that you charge your client.

When working under IR35 you cannot claim for travel and subsistence relating to journeys to and from work. You may only claim for travel relating to one off occasional journeys such as a business meeting at another office that

you do not usually visit. If you are working exclusively under IR35, your ability to pay any other allowable expenses to yourself in full may be occasionally be restricted, and so at this stage you may need to loan funds to the company so that the company can pay you. Now that you are working, it is better to loan personal money to the company so that you can pay yourself, and thus crystallise these expenses as company expenses. If you later receive some non-IR35 income you will be able to repay your loans.

Record keeping and accounts

You will be able to claim as expenses all the normal costs of running a company, so make sure you keep a record of all expenses, together with the corresponding invoices and receipts. Keep receipts for everything that relates to the business, writing details on the back of the receipt as a reminder where necessary. Although we will not normally wish to see receipts when preparing accounts, HMRC may wish to see them, so you should be meticulous about how you file them. All our clients receive complimentary cloud-based accounting software to allow them to do this.

Subject to the rules mentioned above, you will be able to include as company expenses all reasonable pre- and post-incorporation expenses that you have incurred. Below is a list of expenses that are allowable under Corporation Tax rules:

- Travel (including from home to client – but there is a 24 month rule)*
- Business motor mileage (when using your own car)*
- Networking events
- CV writing services and company brochure
- Business stationery
- IT hardware and software
- Internet (only if separately billed and in the company name)
- Telecoms equipment (e.g. mobile phone, but only if in the company name)
- Membership of professional institutes and associations
- Other professional subs (e.g. IoD)
- CPD training (not allowable for IR35)
- Accountant's fees (not allowable for IR35)

*Travel and subsistence expenses are restricted to those incurred on one-off journeys for any assignments deemed to be either within IR35 or under the 'supervision, direction or control' (SDC) of the end-client. In particular, HMRC consider teachers and lecturers, healthcare workers and social workers to be under the SDC of their end-client because the manner in which they work is governed by regulations. The assumption is that somebody would have the right to supervise their work and check that it complied with the relevant standards.

Entertaining is allowed as a company expense but is disallowed for Corporation Tax purposes, and there are also strict rules regarding what kind of entertaining expenses are allowable.

Competex will take responsibility for producing your accounts and will make sure that you comply with HMRC regulations. We will require the following information:

- Details of invoices issued for fees and expenses for which payment is received into the bank account
- Details of invoices that you receive for which payment is made out of the company bank account
- A transcription of the company bank account transactions

- A summary of your personal expenses
- A detailed record of all business mileage and entertaining
- Details of fixed asset purchases

You are strongly advised to keep your record-keeping up to date, to avoid penalties for late filing. If you are organised about the way you run your company, this record keeping should not normally take much more than one hour per month, in addition to the time you take to organise your personal expenses. If you have particular difficulty, we are able to provide extra bookkeeping support for an additional charge.

Preparation of annual accounts

Once your company has been incorporated it will be necessary to prepare statutory accounts each year, and these annual statutory accounts must be filed both with HMRC and at Companies House, until such time as the company has ceased trading, has been dissolved and the name removed from the register at Companies House.

We will prepare your annual statutory accounts in the required format, together with the accountant's report, and will file these electronically both with HMRC (together with the Corporation Tax return) and at Companies House. No audit is required for companies of this size.

If your company is dormant (i.e. there are no transactions in the course of a year), accounts can be filed in a prescribed format suitable for a dormant company.

If, after a while, you see no prospect of needing your company again, it can be dissolved and the name removed from the register at Companies House. All accounts must be filed up to date and clearance obtained from HMRC. However, do not start this process until all fees have been collected, all debts paid and all remaining funds have been withdrawn from the company bank account. If you fail to withdraw the remaining funds from the bank, they will be taken by the Treasury Solicitor as "bona vacantia".

HMRC Investigations

HMRC has a regime of inspections that run along similar lines to VAT inspections. You should work on the assumption that you will be visited at some time, and it is important that records are well kept, all invoices and receipts are properly filed and there are no grounds for criticism. If evidence of dishonesty is found, the inspector will wish to review accounts for earlier years' and may choose to reopen the directors' personal tax assessments, charging interest and penalties on any unpaid tax.

Remember that HMRC hold extensive information about you, and indeed they have developed new software that collects onto one database all the information they would need in connection with any investigation.

You could either be targeted, in which case you will probably have an idea of why this is happening, or you may be selected at random. Unfortunately HMRC consider small businesses easy prey.

To minimise the risk of an adverse outcome, you should have considered the following issues before any HMRC contact:

- Ensure that you are covered by PI insurance. This is a strong indication that you are in business on your own account.
- Ensure you have robust contracts with your clients.

- If you pay yourself in any way other than salary, it is helpful to have a remuneration strategy developed with and signed off by an advisor who is qualified to give this sort of advice and who also is covered by PI insurance.
- Ensure that all your company and personal tax returns are filed on time and that the taxes are paid on time.
- Take out fee protection insurance to cover yourself against the additional accounting costs of providing information and defending your position. Competex offers this insurance and, in the absence of dishonesty, all expenses of the investigation will be covered. We will also handle the investigation on your behalf and enlist the help of specialists.

Starting work

Contracts

Every assignment should be governed by a contract.

If you are working through an agency, the contract will normally be drawn up for you by them. If you are working directly for your client and your client has drawn up the contract, you should read the contract carefully and consider whether to have it reviewed by an employment law specialist, to ensure that the terms are not detrimental. If you are working directly for your client and your client has not drawn up the contract, you would be advised to draw up your own contract setting out your terms and conditions.

In considering the wording of your contract, you should keep in mind certain key regulations:

- IR35. Be clear about whether or not the assignment comes under IR35, and if you are outside of IR35 be careful that the wording of the contract and your working practices do not in any way imply otherwise.
- Agency Workers Regulations. Assume liability for your own employee rights as both employer and employee of your company, and make it clear that your client is not liable for any of these issues.
- Employment Agency Regulations. Opt out of these regulations and attach the opt-out agreement to your contract.

IR35

The IR35 legislation was originally designed to prevent certain company directors from paying themselves a minimum salary and the rest of their income as dividends.

The regulations state that if your work falls under IR35, then 95% of the fees you earn (less certain allowable expenses of employment, which include pension premiums) have to be paid as salary to you, the person who has carried out the work. The remaining 5% may be used by the company to cover expenses. However, this 5% allowance has now been removed for individuals working in the public sector under IR35.

As a general rule, if you are doing the sort of work for your client that would normally be done by an employee of your client, then your assignment falls under IR35. So if for example you are working on maternity cover, replacing a manager or director who is sick or has been made redundant, and your contract is time-based, your assignment will normally come under IR35. Your assignment will also come under IR35 if:

- Your work is or can be supervised, directed or controlled by another person
- You are acting as an office holder on behalf of your client
- You become an integral (and long term?) part of your clients organisation

If your assignment is project-based or is consultancy work and you expect to be there until the project, or your part of the project is completed, it would normally fall outside IR35. If your assignment falls outside IR35, HMRC expect

you to pay yourself a reasonable salary for the work that you have done for your company before paying yourself in any other way.

If you work in the private sector, you must make a decision for every assignment as to whether it falls within IR35 or not, and at the end of the tax year you will have to make a declaration to HMRC stating whether you have complied with the legislation. Some assignments are difficult to judge, and in these cases you would be wise to seek advice from an employment law specialist. There are lawyers who specialise in giving this sort of advice and it should not be unduly expensive. Your accountant will be able to recommend an appropriate specialist.

The wording of your contract should always be appropriate for your particular IR35 status. If you are working outside IR35, you should ensure that the terms in your contract do not confuse your status, for instance by describing the proposed business association with your client in a manner normally appropriate for an employee. In particular, you should not claim personal expenses directly from your client.

For those working in the public sector the responsibility for deciding whether IR35 applies or not passes to the end-client organisation.

New legislation affecting consultants working in the public sector

From 6 April 2017, all public sector departments (and those organisations in the charity/not-for-profit sector that are subject to the FOI Act) will be responsible for assessing if a contract is inside or outside of IR35.

Be aware that many end-clients may be reluctant to state that they have no right of supervision, direction or control over the freelance workers that they employ, or that they relinquish any right that they could have. Therefore, most freelance workers in the public sector, whether working through a payroll umbrella company or through a personal service company, will be told that they are working under IR35.

If you are convinced that your assignment falls outside IR35 but your end-client decides otherwise, the onus would be on you to fight your case. The new HMRC ESS tool is available to test your IR35 status and may be useful to support your challenge.

If it is judged that your assignment in the public sector falls within IR35, it will generally no longer be practicable to receive gross fees into a personal service company. A process does exist but it is complicated, expensive to operate, and not generally favoured by the public sector departments. The easiest option in most cases will be to work through a payroll umbrella company such as Competex Umbrella.

If the contract is likely to be only short term or if you are carrying out several assignments, some of which are non-IR35 or are in the private sector, then working through a limited company could still be an option for you. In this case the end client, or agency, will have the responsibility for operating PAYE for you. Tax and national insurance will be deducted, and the net pay will be paid into your limited company. It is important to note that usually only basic rate tax is deducted and therefore additional tax may be payable on this salary at a later date via your self-assessment tax return. Although you are taxed at source, you will still be treated as an employee of your company rather than of the end client or agency and consequently you will not be entitled to any employment rights or benefits from them. For more information, please see the Competex Umbrella guide 'Contracting in the Public Sector: Limited or Umbrella?'

Starting your first assignment

Contracts must be signed in your company name, and therefore it is important that your limited company must have been incorporated before you start your first assignment.

It is strongly recommended that there be no transactions in the name of the company until you start your first assignment. However, once you do start your first assignment you should notify us, as you will need to be registered for VAT and PAYE, keep records and pay yourself salary. We will provide you with bookkeeping software and a client manual and we will give you all the advice you may need.

Until now, all your company expenses should have been paid personally by you. Now that you are working and your company is active, you should reclaim these expenses from your company. If your assignment is under IR35 you may not have sufficient funds in the company to meet these expenses and it may be necessary to make a director's loan to the company in order to pay these expenses. It is preferable to claim all such expenses from the company in this way, so crystallising them as company expenses, and then repay yourself when funds are available.

Invoicing your client

Under normal circumstances you will invoice your agency and/or clients at the end of each month, adding VAT at the standard rate on both your fees and your total expenses (irrespective of whether you were charged VAT on these expenses). You should always invoice in your company's name, and it might be convenient to raise separate invoices for fees and for expenses. If you are not sure how to set out an invoice, we will provide draft invoices to guide you.

It is convenient to use company headed paper for producing invoices. Each invoice must contain the following information:

- A unique invoice number
- The date (this must be after the date of incorporation)
- Your VAT number (which could already be on your headed paper)

When working through an agency, you may have an arrangement whereby you invoice the agency for your time and you invoice the client for your expenses, and this is quite acceptable. Alternatively, you may have an arrangement whereby your client settles certain expenses, such as flights and hotel bills, directly with the supplier, and this also is perfectly acceptable.

You must ensure that you always claim expenses from your client through your company rather than directly from your client in your own name. If you were to claim expenses on a personal basis this would strongly indicate that your assignment comes within the rules of IR35, since this is the normal way that an employer reimburses expenses to employees. This would also affect your position under the Agency Workers Regulations. If for any reason you do claim your expenses in this way, you should expect to receive a P11D from your client at the end of the tax year.

Getting paid

Taking money out of the company

There are four principle ways of taking money out of a company:

- As expenses
- As salary
- As pension contribution
- As dividend

Under the Companies Act, loans to directors are permitted to a maximum of £10,000 provided certain criteria are met. However, there are Corporation Tax implications and we suggest you seek our advice before taking money out in this way.

If you do not come under IR35, you might consider a mix of salary, pension contribution, dividend and other tax efficient products as part of a wider remuneration strategy that you arrange with a personal financial advisor (see below).

Getting paid

If you are working through an agency, your client will normally pay the provider, and the provider will pay your company. You will then be able to pay yourself a salary from your company which will be paid into your personal bank account after accounting for tax and NI.

You will need to have set up your company bank account by this stage, so that your company can receive payment for your services, and so that you can refund your expenses and pay yourself a salary.

We will run your company payroll for you, and we appreciate that you will probably wish to pay yourself different amounts each month depending on how much you have earned and whether or not your assignment comes under IR35 (see Payroll below). If you are working under IR35 you will be able to comply with the legislation on a month-by-month basis and so avoid a financial shock at the end of the tax year.

Payroll

When you are ready to pay yourself we will set-up your PAYE scheme and operate this on your behalf. Further employees can be added to the payroll at any time.

Your payroll will be run on a monthly basis according to a pre-set timetable, with computations being based on the total funds (including Employer's NI) that you wish to devote to salaries in that particular month.

For company directors there is a technical issue relating to NI. For you, NI is charged on an annual basis, which means that no Employer's or Employee's NI is payable until your salary meets the annual "Primary Threshold" (pro-rated in

the first year from the date of incorporation). When working on assignment for the first time you may also have the benefit of unused tax allowances, and as a result your first net salary payment will probably include less tax and NI than you would normally expect to pay in later months.

Dividends

Dividends are paid to shareholders in proportion to their shareholding, as a distribution of profits after all expenses (including salaries) have been paid for the year, and after paying Corporation Tax. NI contributions are not due on dividend payments.

If you are working on an assignment that comes under IR35, it is unlikely that you will be in a position to pay dividends out of that income.

If you are working on an assignment that does not come under IR35, you may be able to pay dividends, but HMRC advise that you should pay yourself a reasonable salary for the work that you do through your company before paying dividends. Certainly, once you have paid salary up to the NI threshold, it is marginally more efficient to pay dividends rather than further salary. (See the section below about taxation of dividends.)

If you think you will wish to pay dividends, you should give careful consideration when you set up the company as to who the shareholders will be, what proportion of the shares they will have and how much in total you might pay as dividends during the year. (See the section below about 'income shifting'.)

HMRC would normally expect your earned income (including any pension that you may be taking) to cover your living expenses and would not expect you to be living entirely on dividends paid to you from your company. Certainly, you should not be paying dividends on a monthly basis, as HMRC may then wish assess this income as if it was salary. It would in fact be unconventional to pay dividends more than twice a year, and to pay much more often might attract attention from HMRC.

Three issues might affect the level of salary that you choose to pay before paying dividends:

- You will not achieve the maximum state pension unless you have paid NI up to the earnings threshold for a required number of qualifying years. This may not seem important now, but may be a welcome addition later on.
- Some lenders base their calculations exclusively on salary and will not take dividends into account as part of your total earnings when considering the maximum amount that they are prepared to lend.
- A consistently low salary may affect how you are able to use any pension pot that you build up while working through your own company.

Remuneration strategy

Working as an independent professional through a limited company offers you the opportunity to devise your own remuneration package, which can be considerably more tax-efficient than simply paying yourself partly as salary and partly as dividends.

Therefore, when leaving the security of permanent employment with a view to working for yourself, you are strongly advised to take the opportunity to review your personal finances. You should plan when you will need to repay any

remaining mortgage and how you will do that, and you will want to consider your pension arrangements for the time when you do finally retire.

Tax efficient products can be used as part of a plan to create tax free income and to fund expenses such as school and university fees and certain other major payments and acquisitions. You should also ensure that your will is up-to-date and you should take steps to minimise the impact of Inheritance Tax when you die. All these things should be taken into account when putting together your remuneration strategy.

Remuneration strategy is best devised with the benefit of professional advice, rather than as a result of a series of ad-hoc decisions. If you already have an arrangement with a independent specialist financial advisor who advises on these issues, you should take further advice in the light of your new situation. If you do not already have an advisor and you are contemplating a medium-to-long-term career as an independent professional, you should now seek advice.

Unfortunately, very many professionals resist taking advice either because they think this to be intrusive or they feel they should be able to organise these things for themselves. This usually results in doing nothing, paying too much tax and dying intestate with a large Inheritance Tax bill to be paid by the family. The value of your house alone may put you in in this situation.

If this raises any doubts in your mind, we strongly recommend that you take professional advice in this regard from an authorised personal financial advisor.

Taxation and compliance

Value Added Tax (VAT)

Competex will register your company for VAT on your behalf, and we will also advise you how to make your online quarterly payments to HMRC. To do so, we will need the following details:

- Your company bank account number and sort code
- The date you started your first assignment
- Your anticipated turnover in the first 12 months of trading (this need only be a rough estimate)

HMRC will not allow your company to be registered for VAT until your company bank account has been set up and you know the date that you will starting your first assignment. Also, please be aware that if you do not tell us that you are starting your first assignment and you do not register for VAT, you will be liable for penalties if your income exceeds the VAT threshold.

There are two principal VAT schemes, namely the 'standard rate' scheme and the 'flat rate' scheme (FRS). Under the standard rate scheme you pass on the VAT you have charged on the services you have provided but can deduct any VAT that you have been charged by other businesses. Under FRS, sales are charged to your client at the full rate of VAT but when calculating the amount of VAT to be paid to HMRC at the end of the quarter, a slightly lower fixed percentage of the gross sales value is paid instead of recovering VAT on purchases.

Whilst FRS generally resulted in a better rate of recovery of VAT than the standard scheme, recent changes to the VAT FRS categories mean that this is no longer the case. From April 2017 we expect that the majority of our clients are likely to fall within the limited cost trader category which will apply if you spend very little on qualifying goods. For consultants this is likely to mean stationery, books and certain software (hard format not downloaded). Capital items like laptops are excluded as 'goods' as are all services such as travel and subsistence. Operating FRS simplifies administering your VAT returns but other than that, in most cases, we would now recommend that you opt for the standard rate scheme rather than FRS.

The majority of consultants are obliged to register for VAT because their turnover will exceed the annual threshold. If your turnover is not likely to exceed the threshold, you may register on a voluntary basis, and may wish to do so to promote your business as a large well established organisation to agencies and prospective clients. However, you will need to consider this option carefully and whether the benefits are likely to outweigh the administrative burden.

Taxation of dividends

The taxation of dividends is complicated. Here we set out a simplified account of the background and effect of

the taxation of dividends, although it is too complicated to describe the detailed method of computation in this document.

Before a company pays dividends, it must first pay Corporation Tax on the profit for the year. To the taxed profit for the year would be added any taxed profit brought forward from previous years, and out of this total figure you are permitted to pay dividends.

On the basis that the appropriate rate of corporation tax is 19%, you will now have suffered 19% tax on the funds available to pay dividend. Your share of the dividend paid (based on your shareholding in the company) will be included in your personal self-assessment tax return and tax will be assessed on this at the end of the tax year.

Currently each individual receives a tax-free dividend allowance. Dividend income exceeding the dividend allowance is taxed according to the income tax band it falls into. For current rates, please visit <https://www.gov.uk/government/publications/tax-and-tax-credit-rates-and-thresholds-for-2017-18/>.

If the dividend falls within your basic rate band you will currently pay dividend tax at a much lower rate than if falls into the higher bands, which means that overall this could make it a particularly tax efficient option compared to taking further salary above the primary threshold for national insurance.

Dividends may be paid in anticipation of the final result for the year, but remember that it is illegal to pay more in dividends than the accumulated retained taxed profits in the year the dividends are paid.

Income shifting

HMRC are devoting ever greater resources to investigating taxpayers who they think have been avoiding paying Income Tax and NI at an appropriate rate. In particular they have been targeting small, often family companies where income has been transferred typically from a 'working' husband to a 'non-working' wife. This is achieved by using funds earned by the husband and paid to the wife either as salary or as dividend, and results in less tax and NI being paid on the joint income than would otherwise have been the case.

Whilst it may be acceptable to pay a reasonable salary to your spouse or partner for work done, and also to pay modest dividends, you should keep the total of such payments to your spouse or partner in reasonable proportion to the total of your income.

Remember that HMRC have access to your annual accounts as well as having full details of the salary and dividends paid to both you and your spouse or partner, and will choose to investigate those individuals who they think have been flagrantly abusing the system. They would then typically wish to investigate whether there have been instances of tax evasion in earlier years. This type of investigation should be avoided at all costs.

Annual return to Companies House

In return for the privilege of limited liability, you are obliged to file accounts and an annual return with Companies House, and these documents are available for public inspection. The purpose of the annual return is to ensure that Companies House holds up-to-date information about the company, its officers and its shareholders. A fee is also

payable when filing the annual return.

Competex will complete and file your annual return, and will also pay the fee on the basis that your registered office is the same as our own office address.

No further annual returns are required by Companies House and no further fees are payable after the company has been dissolved, although there may be other compliance documentation still to be filed.

Personal tax

For many people, completion of their annual self-assessment tax return is relatively straightforward, but in the tax year when you leave full-time permanent employment you may find it more complicated. You may have unusual amounts of income relating to when you left your former employment. You may have small amounts of income earned as a sole trader. Your tax code may include items that were appropriate for your former permanent employment but are no longer appropriate when working as an independent.

If you have not already engaged your own tax accountant, you may like Competex to look after your personal tax return, particularly in this first year, in which case all these issues will be attended to.

About Competex Ltd

Competex Ltd is a specialist accountancy practice, assisting independent professionals and small businesses with their tax and accounting affairs, including those affected by the IR35 legislation.

Competex clients enjoy a unique, yet simple package designed for clients who need to incorporate a new company or who have an existing company, and who wish to work with a specialist accountant. All our software is cloud-based and appropriate for mobile working. Our clients are based all over the UK and we operate from our offices in Reigate.

www.competex.co.uk

About Competex Pro

Competex Pro an umbrella service that is particularly suited to independent professionals who are working for end-client organisations in the public sector or the charity/not-for-profit sector, that are governed by the 'Off-Payroll working' rules, or who might otherwise be expected to go onto their end-client's payroll.

With its 20 year history working with this type of client, Competex understands the unique offering that small businesses and independents bring to the business world, and recognises their particular needs and ways of working. As a result, the Competex Pro umbrella service mirrors many of the features of limited company working.

Some clients of Competex Pro also own and maintain a limited company for private sector assignments, and are safe in the knowledge that Competex is able to handle their limited company and umbrella company compliance at the same time, reducing the complications involved in end-of-year tax returns.

www.competex.co.uk/pro

About the Interim Hub

For all the thousands of interim managers and consultants in the UK, working across so many different industries, there is very little information available to help them set up their business and market themselves. The Interim Hub fills that gap.

We are an online resource offering a wide range of services for people who are either leaving the security of permanent employment to set up as interim managers, or for seasoned interims and consultants wishing to access further skills and knowledge to expand their business or improve efficiency. Through the Interim Hub, new and existing interim managers and consultants can access a range of professional services, training events and free online resources, including a searchable database of over 1,000 agencies who place independent professionals on assignment.

www.interim-hub.com



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