

GUIDE TO WORKING THROUGH A LIMITED COMPANY



Competex



WELCOME

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 personal finances, this guide covers 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, Principal Director

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 include (but are not limited to):

- Limited company
- Sole trader
- Payroll umbrella company (Competex Pro)

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

Limited company, payroll umbrella company or sole trader?

As an independent professional, it's important that you choose the appropriate trading format for the work that you will be doing.

The format you choose will depend on a number of factors, including whether your work is likely to come under IR35, how much money you expect to make, and what you want to do with it.

If your work falls outside IR35, the most professional and tax-efficient way of working is via a limited company.

Setting up a limited company requires more administration than registering as a sole trader, but can be less of a risk in the long term. A limited company is a separate legal

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entity to its directors, which means that the company is responsible for everything that it does, separately to you as an individual. Any profits belong to the company, rather than you, so you are paid as an employee.

The company can share its profit, after tax, amongst its shareholders as dividends. The director(s) are responsible for running the company and usually own shares, but are not personally responsible for any losses the business may make.

Setting up a limited company can offer tax benefits, protect your personal assets and create a more professional impression of the company.

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.

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.

Becoming a sole trader is the simplest route if you are the only owner of the business. You enter into contracts in your own name and have unlimited liability; this means your

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personal assets are at risk if the business fails. There are certain obligations you must fulfil with HMRC, and tax obligations you must meet. This is a viable option if your income is expected to be relatively low.

Independent professionals working under IR35 are subject to new taxation rules if they work through a limited company, which make this way of working more costly and difficult, so if your work comes under IR35, we recommend that you work via a payroll umbrella company.

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.

Can I transfer an existing company to Competex?

Yes, we would be very happy to act as your accountant should you already be working through your own limited company. It only takes a few simple steps for us to adopt your limited company. Simply navigate to the menu item 'Accounting for Existing Companies' on our website.

SETTING UP YOUR LIMITED COMPANY

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 next section 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

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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 provide the 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. We do this in three ways:

- 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.
- 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.

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- 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.

Domain name

You will need to use email and you should plan to set up a simple 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.

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Company structure

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.

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

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within three months) countersigned by an approved individual who has known you for two years (similar to the requirement for a passport application). We will also

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

PREPARING FOR WORK

Summary of 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
- Setting your daily rate
- 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 can choose any bank that you wish for this purpose.

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.

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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 never 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 fulltime employment and therefore no longer need the company.

Setting your daily rate

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:

PREPARING FOR WORK

- Accountant's fees
- IT equipment & broadband
- Telephone bills
- Office stationery, telephone
- 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.

IR35

What is IR35?

IR35, also known as the Intermediaries Legislation, was introduced in the year 2000 and was designed to collect additional tax and NI from independent professionals (referred to in this section as 'workers') who HMRC believed to be working in 'disguised employment'.

Disguised employment is where the working practices and wording of a contract are similar to that of an employee, but where the worker enjoys the tax benefits of working through an intermediary, such as a limited company, also known as a personal service company (PSC). When a worker is seen to be in disguised employment, they are deemed to be 'inside' or 'caught by' IR35.

The 2000 IR35 rules state that if your contract is inside IR35, then 95% of the fees you earn (less certain allowable expenses of employment, which include pension premiums) must be paid as salary to the worker.

For independent professionals in the Public Sector, and as of April 2021, for those working for larger end-users (referred to here as end-clients) in the Private Sector, the new 'Off-Payroll Working' rules apply.

The 'Off-Payroll Working' rules state that the end-client is responsible for determining the IR35 status of the contract, rather than the worker as was the case in the 2000 legislation. PSC workers need to be sure whether their contracts are likely to be caught by these rules, and if they are, must weigh up their options.

If they are not required to go on the payroll of their end-client, they can either switch to working via a payroll umbrella company such as Competex Pro (recommended) or continue to work through a PSC (which is more costly and difficult if you are caught by the rules).

IR35

How will taxation change for PSC workers who are found to be inside IR35?

PSC workers will be taxed in a different way under the new rules. If the contract is caught by IR35, then the 'fee payer' (agency or end-client) is required to deduct tax and Employee's National Insurance on the worker's earnings, and to pay this to HMRC together with Employer's National Insurance, before paying the net amount to the PSC.

There are also the following issues:

- Fees are normally taxed at the 20% basic rate unless the fee payer is advised to do otherwise by HMRC. PSC workers should therefore be prepared to pay additional tax if appropriate after submitting their annual self-assessment tax return.
- The 5% allowance for business expenses has been removed. This means that 100% of the fee income paid to the PSC by the fee payer is treated as taxable income, rather than 95% as in the original IR35 legislation. The worker would still need to pay for the costs of running their PSC (such as accounting fees, IT, communications and marketing costs), and would have to do so out of taxed income (meaning they lose money).
- There is no provision in the 2021 legislation for fee-payers to contribute to Off Payroll Workers' pensions if working via a PSC. Therefore, PSC workers would need to make contributions out of taxed earnings.

As such, the new regulations make it very difficult and uneconomic to work through a PSC if your work is caught by the new rules.

What determines whether or not my contract falls inside IR35?

The question of whether or not a contract is deemed to be inside IR35 depends on a variety of factors, relating to both the contract itself and the working practices. There are three employment tests designed to help engaging organisations make this assessment, along with a number of additional factors that HMRC considers.

IR35

The employment tests

The 'supervision, direction and control' test

This test focuses on the level of autonomy given to the worker. HMRC considers consultants, for example, to have more autonomy when it comes to choosing the work that they do, while employees are more likely to be assigned tasks by their employer. This can however depend on the individual's skill and expertise, as a highly skilled employee is likely to enjoy a greater degree of autonomy than a less experienced consultant.

The 'supervision, direction and control' (SDC) test asks the following questions of the working practices and the wording of the contract itself:

- Supervision: is the worker supervised while they carry out their work?
- Direction: is the worker told how to do the job at hand?
- Control: does the engaging organisation have control over aspects of the working practices, such as the worker's schedule?

If the answer to any of these questions is “yes”, then there's a chance that the worker might be inside IR35.

The 'substitution' test

The test of substitution considers whether the engaging organisation would be prepared to accept someone else to do the work in the event of the worker being unavailable. If the engaging organisation would not be prepared to do this and would only accept the personal service of that particular worker, it would suggest that a traditional employment relationship might be in place and that the contract could therefore be inside IR35.

The 'mutuality of obligation' test

In the context of regular employment, mutuality of obligation (MOO) means that one party – the employer – is obliged to provide work and the other party – the employee – is obliged to accept it.

IR35

However, non-employees have no obligation to accept work and unlike employers, the companies that engage them have no obligation to provide it.

Therefore, as MOO is a feature of an employment relationship, if it is present in a contract, it suggests that the contract might be inside IR35.

When assessing the working practices and contract, there are certain factors that would indicate that MOO isn't present and that an employment relationship, therefore, doesn't exist. These include:

- The use of specific projects with set end dates
- The ability for either party to stop the work with very little notice

Whose responsibility is it to determine a contract's IR35 status?

When IR35 was originally introduced, it was the worker's responsibility to determine whether they were inside or outside IR35. However, in the new Off Payroll Working legislation, the responsibility is given to the engaging organisation to make this assessment.

A note about overseas end-clients: if both the fee-payer (typically the employment agency) and the end-client are outside of the UK, the fee-payer will remain liable with regard to the IR35 determination of the contract. The consultation document would also suggest that should the contract be directly with an overseas end-client, the end-client will then become the fee-payer and be responsible for the contractor's status.

IR35

Additional factors that might affect a contractor's IR35 status

HMRC doesn't just consider the outcome of the three employment tests when assessing a contract's IR35 status. It looks at a wide range of factors that might indicate that the worker is "part and parcel of the organisation" and that a traditional employment relationship might, therefore, be in place. These factors include:

- The worker having an email address at the engaging organisation
- The worker having permission to use company equipment
- The worker receiving the same company 'perks' as their employed colleagues
- The worker being line managed in the same way as their employed colleagues

IR35 Contract Reviews

IR35 is a matter of employment law and we are not authorised to give anything other than broad advice on this matter. If required, an IR35 contract review can be obtained from an employment law specialist such as Croner Taxwise or Bauer and Cottrell.

An independent contract review highlights each relevant clause within your contract and details why it is a pass or a fail for the IR35 legislation. Remember, however, that your working practices are paramount, so they will be scrutinised and individual methods of working will also be judged to be either a pass or a fail. If appropriate, guidance and suggestions will be provided as to how to make your contract and working practices more robust.

Be aware that it is the end-client who is responsible for determining the IR35 status of a contract, and so you would only seek a contract and working practices review in the event of a disagreement, or to get an idea of what to expect and to help you plan accordingly. However, if you were to be subject to an HMRC IR35 enquiry for any reason, it would then demonstrate that you have taken 'reasonable steps' to ascertain your status.

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.

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

STARTING WORK

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.

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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.

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.

EXPENSES AND RECORD-KEEPING

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 postincorporation 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

EXPENSES AND RECORD-KEEPING

- CV writing services and company brochure
- Business stationery
- IT hardware and software
- Internet (only if separately billed and in the company name)

*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.

EXPENSES AND RECORD-KEEPING

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.

EXPENSES AND RECORD-KEEPING

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.

[For more information about fee protection insurance, visit our website.](#)

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). We are not able to advise you on the remuneration structure of your limited company (this includes the setting of dividend levels for the company). We advise you to chose a knowledgeable Tax Accountant who may give advice regarding remuneration strategy, or to engage the services of an Independent Financial Advisor.

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

GETTING PAID

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.)

GETTING PAID

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 'Income shifting' on page 31).

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.

TAXATION AND COMPLIANCE

Value Added Tax (VAT)

If your business is registered for VAT, you are obliged to act as a collector of tax. You charge VAT at 20% on the services you provide and pass this on to HM Revenue & Customs. Before passing it on, you are allowed to deduct any VAT that you have been charged by other businesses.

One of the first questions that new business owners ask is if they should register their business for VAT. If your turnover in any 12-month period exceeds £85,000, then registration is mandatory. If it is not, you may choose to register voluntarily if you wish. However, following recent changes to the VAT flat rate scheme, it is no longer our advice that a company automatically opts for VAT registration. You should consider this option carefully and whether the benefits in your situation are likely to outweigh the administrative cost.

There are 2 types of VAT scheme – the Standard Rate Scheme and the Flat Rate Scheme.

Standard Rate Scheme

Under the Standard Rate Scheme, you charge 20% on your invoices (except if your customer is based outside the UK – in which case please consult with us for further advice). This is VAT that you have collected on behalf of HMRC, which you pay to HMRC at the end of each quarter. You may deduct from this any VAT you have been charged on costs incurred, so the amount you pay to HMRC is usually slightly less than the amount you have collected.

The one drawback of this scheme is that you need to ensure you only deduct the correct amount of VAT. You will need to check each invoice to make sure UK VAT has been charged. In some cases, you will need to provide your VAT registration number to the supplier so that VAT is not charged, for instance to LinkedIn who operate from Ireland (if they add VAT to their invoice you cannot recover it). Therefore, there is a bit of work to do to make sure you get it right.

TAXATION AND COMPLIANCE

Flat Rate Scheme (FRS)

HMRC introduced this scheme to make it easier for small businesses to complete their VAT returns. Under FRS, you still charge 20% on your invoices, but do not recover any VAT that you have been charged, other than for some capital assets purchased. It means you do not have to record the VAT you have incurred on purchases and expenses, which saves a lot of extra analysis and there is less chance of 'getting it wrong'. Instead, you apply a flat percentage of your Gross Sales Income and pay this amount to HMRC, which will be slightly less than what you have collected.

There is a list of different business sectors, from which you select the most appropriate to you, and each sector has a set percentage that must be applied to gross sales. From April 2017, we expect that the majority of our clients are likely to fall within the limited cost trader category, for which the rate is 16.5% (15.5% in first year of registration). A limited cost trader is one who spends very little on qualifying goods which, for consultants, is likely to mean stationery, books and certain software (hard format, not downloaded). Capital items like laptops are excluded as 'goods' and all services such as travel and subsistence are also excluded.

HMRC have provided the following further examples of goods that are specifically excluded:

- Accountancy fees, these are services
- Advertising costs, these are services
- An item leased/hired to your business, this counts as services, as ownership will never transfer to your business
- Food and drink for you or your staff, these are excluded goods
- Fuel for a car this is excluded unless operating in the transport sector using your own, or a leased vehicle
- Laptop or mobile phone for use by the business, this is excluded as it is capital expenditure
- Anything provided electronically, for example a downloaded magazine, these are services

TAXATION AND COMPLIANCE

- Rent, this is a service
- Software you download, this is a service
- Bespoke software designed specifically for you, this is a service even if it is not supplied electronically

You will be a limited cost trader if the amount you spend on relevant goods including VAT is either:

- less than 2% of your VAT flat rate turnover
- greater than 2% of your VAT flat rate turnover but less than £1000 per year

If you are not a limited cost trader, you can apply and use the appropriate business category rate rather than 16.5%. This assessment must be carried out on a quarterly basis and the appropriate rate applied each quarter.

Making Tax Digital (MTD)

HMRC recently introduced Making Tax Digital (MTD), the objective being for the UK to be one of the most digitally advanced tax administrations in the world. The aim is for businesses to maintain their records in digital format so that this can be used as an interface with HMRC. The first tax for which MTD has become obligatory is VAT, and from 1 April 2019 all businesses whose annual taxable turnover exceeds £85,000 are required to register for MTD and to file their VAT returns using cloud approved software. As our client, you will be provided with FreeAgent software which complies with MTD filing.

[For more information about VAT, please read the guide 'VAT Explained' on our website.](#)

TAXATION AND COMPLIANCE

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.

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.

[For current rates, please read the guidance on rates and allowances on the HMRC website.](#)

TAXATION AND COMPLIANCE

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.

TAXATION AND COMPLIANCE

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 self-assessment tax return

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.

As a director of a company you are required to submit a personal tax return in the personal tax year (6th April to 5th April) that the company is formed and has started trading. You must submit a tax return even if haven't taken any salary or dividends from the company if the company commenced trading in the tax year. If you do not, you may receive fines and penalties from HMRC.

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.

The Competex personal tax team will advise you how much tax you need to pay and when you need to pay it. We constantly monitor adherence to tax filing and tax payment deadlines, ensuring clients avoid late filing penalties and interest charges wherever possible. We also review clients' PAYE coding notices and liaise with HMRC on revisions to tax codes, if necessary.

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.

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.

[An insurance broker that specialises in the consultancy market, that we recommend, is Hiscox.](#)

OTHER REGULATIONS

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.](#)

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.

OTHER REGULATIONS

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.

OTHER REGULATIONS

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 A T 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.



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