GUIDE TO RUNNING 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. Or you can create a working environment at home. This is the joy of being your own boss.

Inevitably, leaving the secure world of 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 23 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 company 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 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

KEY CONSIDERATIONS

Business structures - limited company, sole trader or partnership?

The type of business structure you decide to use will depend on a number of factors, including how many employees there are in the business, how many shareholders the business has, how much money the business expects to make, and what you want to do with the business profits.

Small businesses usually have one of the following trading structures:

- Sole trader
- Partnership
- Limited company
- Limited Liability Partnership (LLP)

These are detailed below. Thereafter, this guide refers to limited companies only.

Sole trader

Becoming a sole trader is the simplest route if you are the only owner of the business. As a sole trader you have unlimited liability; this means your personal assets are at risk if the business fails. You pay personal tax each year on the profit that you make in that year. 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.

Partnership

In a partnership, you and your partner (or partners) personally share responsibility for your business. This includes any losses your business makes, and bills for things you buy for your business, like stock or equipment. Partners share the business's profits, and each partner pays tax on their share.

A partner does not have to be an actual person. For example, a limited company counts as a 'legal person' and can also be a partner.

KEY CONSIDERATIONS

Limited company

A limited company is a company in which the liability of the shareholders is limited to what they have invested in, or guaranteed to, the company. A limited company is a separate legal entity from that of the shareholders and directors, meaning that the company is responsible for its own assets, liabilities, profits and losses, separately to you as an individual.

Any profits belong to the company, rather than you, so you are paid as an employee (if you work in the business). The company can share its profit, after tax, amongst its shareholders as dividends. The director(s) are responsible for running the company and may own shares, but are not personally responsible for any losses the business makes.

Setting up a limited company enables you to plan your business finances separately from your own personal finances and protect your personal assets.

Limited liability partnership (LLP)

Like a limited company, an LLP is incorporated at Companies House and has the same rigorous filing and reporting requirements. It is also similar to a limited company in that the partners of an LLP have reduced financial responsibility (unlike a traditional partnership), making this an appealing option for many small businesses.

A partnership must consist of two or more partners and have at least two partners designated to assume additional legal responsibilities on behalf of the LLP.

LLPs tend to be suitable for a partnership with a small, constant number of members who all make comparable contributions to the company and take home a similar level of profit, such as solicitors and accountancy firms. However, if you wish to sell shares in your business or plan to employ lots of people whose total salaries will be higher than the owners', a limited company may be more suitable.

KEY CONSIDERATIONS

When is the best time to set up my company?

Many people choose to set up their limited company as soon as they decide to make a career move into their chosen business or industry, giving them a platform from which to market their products or services. Setting up your company at this stage reduces the amount of last minute admin you will have to do when you start up. The company can remain dormant until trading begins, at minimal cost.

Alternatively, you may choose to wait until you have your first clients or customers before you set up the company. The process of forming your company with Competex is extremely fast and you will usually receive your Certificate of Incorporation and company number within 24 hours.

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, and you will be correctly registered with the statutory authorities, thus avoiding any compliance difficulties. Apart from a small transfer fee, we will not charge you any fees until you begin trading through your company.

Who works in the business - directors, shareholders and employees

Each company has shareholders, directors and employees.

- The shareholders own the company.
- The directors run the company.
- Employees work for the company. Directors and shareholders can also be employees, if they work for the company and take a salary.

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 how it would affect your tax position if you pay dividends

KEY CONSIDERATIONS

(see below concerning dividends and income shifting). We therefore recommend that you talk with us before making any decisions about this.

Some companies also have a company secretary, who represents the directors in matters regarding the statutory authorities and compliance issues. This is optional.

How the business is used

We advise you to keep the company structure simple, and in doing so keep accountancy fees to a minimum. We suggest that you do not use the company for the following activities:

- Investments
- Company cars - these 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.

Also, you complicate issues if you run multiple bank accounts and company credit cards.

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 an Existing Limited Company' on our website.

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

SETTING UP YOUR BUSINESS

Forming your limited company at Companies House

To form your company, you simply need to complete the company formation forms on the Competex website. We will ask for the following information that is 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 available. Also see below about domain names.
- The names and personal details of all your shareholders.
- The number of shares to be issued to each shareholder. It can be 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 (see next page).
- The name and contact details of your Company Secretary if you have one.

If we receive your information before 11am, we would expect your company to be incorporated by the next day, and it would be helpful you were contactable during this time, so any queries can be quickly resolved.

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 will need for your letterhead, email signatures and website. It is also required when setting up the company bank account.
- Share certificate(s)
- Memorandum and Articles of Association

SETTING UP YOUR BUSINESS

Registered office and company correspondence

To reduce your administrative burden, and to help us create robust compliance arrangements, Competex provides the registered office for all clients. This is separate from your trading address, which should be your home or office address. As we provide your registered office, we deal with routine HMRC and Companies House correspondence on your behalf.

The address of your registered office will appear on the public register, and on your printed letterhead, email signature and website, and is the address to which legal documents may be served on the company if required. HMRC and Companies House will use this address when corresponding with your company, and as your accountant, we will handle this mail for you.

It is not appropriate to invite others to communicate with you via your registered office address. Please use your normal home or office address (your 'trading address') for all other routine correspondence, including correspondence with banks, agencies and brokers.

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.

Security of personal information at Companies House

Companies House maintain both a private and a public register, and in today's online climate we recommend setting up your company 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 SAIL ('Single Alternative Inspection Location') address. This address appears on the public record and shows where your company other routine correspondence, including correspondence with banks, providers, and insurance brokers.

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records may be inspected.
- For a small fee, we can 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. This can be done for any or all directors of the company as required. Note that if your personal details appear on a document filed at Companies House, this cannot be reversed.
- We register your company under the Companies House PROOF scheme ('PROtected Online Filing'), 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.

Domain name, email and website

Most reputable small businesses use a custom domain name for website and business email that complements the company name. We recommend that you acquire a suitable domain name at the time that you set up your company.

Competex works with our associated IT company to provide the following services:
- Domain name purchase and setup
- Business email and office software configuration
- Web hosting and server side maintenance
- Website design and development

Please ask your Client Liaison Manager if you need assistance with this.

Company bank account

Because your company is a separate legal entity from you the director, 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,

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rather than one of the new ‘challenger’ banks, as the traditional bankers’ systems are generally more robust. You are advised to check that the bank of your choice is a member of the ‘fast payments’ scheme.

Opening a company bank account can be a slow process. We recommend you complete the online application process or obtain the relevant registration forms and documentation from the bank of your choice as soon as possible, and submitting them 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.

You should pay the share capital (see above) into your new company bank account, but do not pay any other funds into the company bank account until you receive trading income into the company. 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.

Capital assets

You may need to spend money on capital assets either before you begin trading (from your personal income which you will then reclaim from the business), or after you begin trading, from income held in your business bank account.

Capital assets are any pieces of equipment, furniture, tools, vehicles or property that you will use in your business for a year or more, which contribute to your profit-making activities.

Your designated accountant will be able to advise you on allowable levels of capital expenditure for your particular business, and how to account for them correctly.

SETTING UP YOUR BUSINESS

Employing staff

You may wish to take on employees to work for you in the business. While building a team can be one of the most rewarding parts of running a business, there are many factors to consider and get right. The process of searching and interviewing candidates is outside the scope of this guide, but here is a list of some essentials you need to consider when taking on your first employees:

- Seek professional legal advice when putting together your first employment contracts and written statements. These are legally binding documents and there are certain inclusions that must be made.
- Your employees have statutory rights as decreed by law. These include the right not to be discriminated against, the right to equal pay, Maternity/Paternity Leave, annual leave and working time limits, among many others. A list of these rights can be found on the UK Government website.
- You will need to take out Employer's Liability Insurance as soon as you take on employees.
- You must pay your employees the National Minimum/'National Living Wage'.
- You may wish to establish workplace rules and create policies and procedural documents for your employees (see 'General Compliance Considerations' below).

Legal disclaimers

In order for us to carry out accounting work for you, you are required to sign our standard Letter of Engagement. Once this has been signed, we will set you up as a client on our accounting, communications and invoicing systems. Your data will be stored securely on these systems and in line with GDPR standards and our Privacy Policy.

When you first appoint us, we will ask you to provide standard proof of identity for all shareholders, directors and employees of the company, countersigned by an approved individual who has known you for two years (similar to the requirement for a passport application). This enables us to comply with the Money Laundering Regulations 2017.

We will send you our current fee schedule and Direct Debit documentation. We reserve the right to review our fees, which are set at market rate, from time to time.

SETTING UP YOUR BUSINESS

Summary of tasks

Here is a summary of the tasks that need to be carried out to complete the setup of the company, and prepare to begin trading:

You

- Provide details to us to enable us to form your company (or adopt your existing company) and act as your accountant
- Open the company bank account
- Purchase any necessary capital assets (following advice from your designated accountant)
- Organise business branding and marketing materials
- Arrange business insurances
- Recruit new employees and arrange employment contracts with the advice of a legal professional
- Have appropriate terms and conditions in place for your trading partnerships and supplier relationships. Seek legal advice if you need to.

Competex

- Company incorporation with Companies House
- Setup of Director's Service Addresses (if required) and additional security with Companies House
- Corporation Tax registration with HMRC
- Value Added Tax (VAT) registration with HMRC (if required). We do this at a time that you agree with your dedicated accountant.
- PAYE registration with HMRC. This is carried out just prior to paying salaries for the first time.

TRADING THROUGH YOUR BUSINESS

When you begin trading

There are many elements to consider when beginning to trade through your business, and these will depend largely on the nature of your work. We cannot cover every eventuality in this guide, but we do intend to give you an overview of important key points as regards your company financial affairs and related matters.

It is strongly recommended that there are no transactions in the name of the company until you begin trading. Any pre-formation company expenses would have been paid personally by you or another director of the company. Now that the company is active, the directors can reclaim these expenses from the company from the first income and before starting to pay salaries (see 'Pre-incorporation expenses' below).

Once you do begin trading, you will need to:

- Pay yourself and/or other employees a salary – we will do this for you as requested
- Keep records of all your business transactions. We provide you with FreeAgent accounting software and full instructions on how to use it. We will support you and give you bookkeeping guidance along the way.
- If you offer warranties or trade in currencies other than GBP, you may need to account for these. Your designated accountant can help with this.

Invoicing

You should always invoice in your company's name. If your company is VAT registered, you need to add VAT at the standard rate on both your fees and any associated expenses (irrespective of whether you were charged VAT on these expenses). It may be convenient to raise separate invoices for fees and for expenses.

There is an invoicing facility in FreeAgent accounting software, and we recommend using this. Otherwise, you can simply 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 may already be on your headed paper)

EXPENSES AND RECORD KEEPING

Claiming expenses

In principle, you will be able to claim all the normal costs of running a company as business expenses. To use HMRC terminology, any expenses that you claim back from your company 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 you to invoice your customers or clients from your company for any allowable expenses pertaining to the work you do for them, such as air fares, hotel accommodation or subcontractor fees. These should always be paid into your company bank account, and your customers or clients should not reimburse you personally for any expenses that you have incurred.

Allowable expenses

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:

- Specific travel (commuting expenses are not allowable)
- Business motor mileage (excluding commuting, and only when using your own vehicle)
- Networking events
- CV writing services and company brochure
- Business stationery
- IT hardware and software
- Internet and mobile phone (only if separately billed and in the company name)

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.

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 they are 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. It is easier to keep the company dormant or close the company without having traded, if there have been no transactions.

Record keeping

Competex will take responsibility for producing your accounts and will make sure that you comply with HMRC regulations. In order to do this, we need from you:

- Details of invoices that you issue 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.
- Details of the company's bank transactions (i.e. your bank feed), supported by receipts and invoices.·
- Details of any personal expenses (i.e. paid for by you) that relate to the business, supported by receipts.
- A detailed record of all business mileage and entertaining, supported by receipts.
- Details of fixed asset purchases, supported by receipts.

EXPENSES AND RECORD KEEPING

We provide FreeAgent software for you to input all the above information, and you are strongly advised to keep your records up to date, to avoid penalties for late filing. Keep receipts for everything that relates to the business, writing details on the back of the receipt as a reminder if that suits you. Although we do 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. If you wish to store receipts electronically, FreeAgent has the facility to scan and store receipts for each expense transaction.

If you are organised about the way you run your company, record keeping should not take much time. However if you are unable to maintain your books for any reason, 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. An audit is not usually required for small businesses.

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".

EXPENSES AND RECORD KEEPING

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 Professional Indemnity and any other relevant insurances. This is a strong indication that you are in business on your own account.
- 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 Professional Indemnity insurance.
- Ensure that all your company and personal tax returns are filed on time, and that all 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. For those that hold this insurance with us, we handle the investigation on your behalf and enlist the help of specialists.

GETTING PAID

Payroll

When your business begins trading, all sales income must be paid by your customers or clients directly into your company. You will then be able to refund your expenses, and pay yourself and any other employees a salary, which will be paid from the company bank account into the employees' personal bank account, after accounting for tax, NI and Auto Enrolment deductions.

You should set up your company bank account as soon as the company is incorporated, so that your company can receive payment for your products and services.

Competex operates your company payroll. In many cases, our clients wish to pay different levels of salary each month, and we can operate variable payroll for clients who require this.

When you are ready to pay salaries, we will set-up your PAYE scheme and operate this on your behalf. Additional employees can be added to the payroll at any time. Your payroll is run on a monthly basis according to a pre-set timetable, with computations usually based on the total funds (including Employer's National Insurance) that you wish to devote to salaries in that particular month.

Please note that for company directors, there is a technical issue relating to National Insurance (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), after which you pay full NI on your entire gross salary. If you have the benefit of unused tax allowances, your first net salary payment will probably include less tax and NI than you would normally expect to pay in later months.

GETTING PAID

Director & shareholder remuneration

There are four principal ways of releasing funds from a company:

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

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 that you seek our advice before taking money out in this way.

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.

Depending on the level of funds in the business, 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 'Income shifting' below).

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 unwanted attention from HMRC.

GETTING PAID

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.
- Some lenders base their calculations exclusively on salary and will not take dividends into account as part of 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 earning via your company.

Remuneration strategy

As a company director, you might consider a mix of salary, pension contribution, dividend and other tax efficient products as part of a wider remuneration strategy. Competex's tax practice is able to advise you on the remuneration structure of your limited company, which includes the setting of dividend levels for the 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 pay the VAT at the end of each quarter to HMRC. Before passing it on, you can deduct any VAT that you have been charged by other businesses.

One of the first questions that new business owners ask is whether or not 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. You should consider this option carefully and whether the benefits in your situation are likely to outweigh the administrative cost. In any event, we suggest that you seek advice from your designated accountant

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 always need to ensure that you claim back 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. Your limited company receives the full benefit of any profits generated by the Flat Rate Scheme.

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. The rate can be anything from 0% to 14.5%. However, if you are a business that spends very little on goods then you are likely to fall into the additional category called 'limited cost trader', for which the rate is 16.5% (15.5% in first year of registration).

Goods include things like stationery, books and certain software (hard format, not downloaded). Capital items like laptops are not regarded as 'goods' for these purposes 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

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- Laptop or mobile phone for use by the business, this is excluded as it is capital expenditure
- Anything provided electronically (e.g. a downloaded magazine), these are services
- 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 gross turnover (sales including VAT); or

greater than 2% of your gross turnover but less than £250 per quarter

This assessment must be carried out on a quarterly basis and the appropriate rate applied each quarter. If you do not fall into this category then you can use the lower business rate that applies to your business rather than 16.5%.

Making Tax Digital (MTD)

HMRC recently introduced Making Tax Digital (MTD), which requires 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 mentioned above, we provide you with 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 complex to give a detailed method of computation in this guide.

Before a company pays dividends, it must first pay Corporation Tax on the profit for the year. Any taxed profit brought forward from previous years would be added to the taxed profit for the year, 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) must be included in your personal Self Assessment tax return, and tax is assessed on this at the end of the tax year.

Each individual currently receives a tax-free dividend allowance. Dividend income exceeding the 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 (see HMRC Investigations above). In particular, they have been targeting small, often family companies where income has been transferred typically from a 'working' spouse or partner to a 'non-working' spouse or partner. This is achieved by using funds earned by one and paid to the other either as salary or as dividend, which 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 if he or she works in the business, 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 own 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.

Confirmation Statement to Companies House (Annual Return)

In return for the privilege of limited liability, you are obliged to file accounts and an annual Confirmation Statement with Companies House, and these documents are available for public inspection. The purpose of the Confirmation Statement 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 the Confirmation Statement for your company and will pay the fee provided that your registered office address is the same as our own office address (which is usual for all our clients - see above).

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 first tax year when you leave your former employment, and are now receiving a salary from your business, 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 employment but are no longer appropriate when working for yourself.

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

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

The Competex personal tax team 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.

TAXATION AND COMPLIANCE

General compliance

You will need to check with your industry association or trade body which compliance topics you must cover, and implement appropriate policies and procedures.

Common compliance topics are:

- Safety
- Anti Money Laundering
- Employee handbook
- Data Protection

We recommend that you take professional advice in this area and fully understand your responsibilities in ensuring compliant procedures as a business owner for your specific business.

OTHER REGULATIONS

Insurances

The insurance you hold for your business will depend on the nature of the work that you do. The most commonly held business insurances are:

- Professional Indemnity (PI)
- Public Liability
- Employer's Liability

Professional Indemnity

Professional indemnity insurance covers you against the cost of litigation in case of 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 may also choose to have this type of insurance.

The amount of cover that you will need will depend on the type of work you are doing, and ultimately it depends on how much damage you could do to your client if things went wrong. With this in mind, you may wish to seek out a broker that deals with your particular industry or association, as they will be specialists in your field, and will be able to advise you on any additional insurances you may need.

Public Liability

If you work with the general public, you will need to take out Public Liability insurance, which covers you for any claims made by members of the public in connection with

OTHER REGULATIONS

your business activities, either at your business premises or off-site. This covers the cost of compensation for:

- Personal injuries
- Loss of or damage to property
- Death

Employer's Liability

Every employer is legally obliged to hold Employer's Liability Insurance. which covers your business for the cost of compensation and/or legal fees relating to claims made by any of your employees against your business.

This usually covers claims made by both permanent and temporary workers, but you will need to check these details with your policy provider.

OTHER REGULATIONS

Money Laundering Regulations

Some types of businesses are required to register with HMRC or with their own professional body for supervision before carrying out any relevant business activities.

For example, 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.

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.

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 if required. The wording of the 'footer' below would be appropriate in your circumstances, where the registered office is different

OTHER REGULATIONS

from your principal place of business.

DIRECTOR: J A T Browne
REGISTERED OFFICE: THE OLD BAKERY, BLACKBOROUGH ROAD, REIGATE, SURREY, RH2 7BU
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 main place of business, such as your home or office address, and not from the registered office address.

Competex

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