

Guide to running your **Limited Company**



INTRODUCTION

Setting up your own limited company is by no means simple. As well as securing your new opportunities and networking with clients, you also need to deal with all the behind-the-scenes administration. Ensuring your accounts are looked after is essential for business success.

With so much to understand and get your head around, setting up a limited company can seem like a complex and confusing task. The aim of this guide is to help you better understand what a limited company is, and how it operates.

This guide shares our 16+ years' experience of working with contractors and freelancers. This guide will explain:

- Exactly what a limited company is
- How to manage your company finances
- Understanding the roles within a Limited Company
- How you pay yourself via a Limited Company
- What expenses you are eligible to claim
- Plus much, much more.

I hope you find this guide beneficial, if you have any questions about how a limited company works, I recommend you contact our New Business Team on **0800 195 3750** or email newbusiness@icsuk.com.

I wish you all the best with your exciting new venture.



John Lyon - Director



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WHAT IS A LIMITED COMPANY?

A limited company is a popular business structure amongst contractors. A limited company must be incorporated at 'Companies House', with the details then hosted within the public domain. A limited company is a separate legal entity to its owners (shareholders) and is able to enter into contracts using the company name. The company itself is held accountable for its actions, finances and liabilities.

A limited company can be seen as a vehicle for remuneration. As a contractor, dependant on your contract length or rate a limited company could be the most tax-efficient way of operating. If however, your contract length is only 3 months and you don't look for additional work, an Umbrella solution may be the best option.

We recommend getting in touch and we can advise on the best options available. For more information, contact a member of our New Business Team on **0800 195 3750** or email newbusiness@icsuk.com



LIMITED COMPANY SET-UP

When you set up a limited company, there are four key criteria you must be careful to define. These are as follows:



1. Shareholders

Shareholders are the individuals who own a stake in the company. Depending on the quantity of shares that exist, each shareholder will own a corresponding amount of the company. They are then entitled to a share of the companies profits and assets that are in-line with their percentage shareholding.



2. Directors

Directors are responsible for overseeing the company's day-to-day operations. They are elected to their positions by the shareholders. In smaller private companies, you usually find that directors and shareholders are the same people. For example, two directors may each own 50% of the company's shares. For the recommended share split, we suggest getting in contact and we can advise on the most tax efficient option.

LIMITED COMPANY SET-UP (CONTINUED)



3. Registered office

This is the address at which the company will be registered to. Among other things, this is where all of the business's official communications will be sent to. You can choose to have your residential address, however you may want to opt for an accountant to manage your incoming mail.



4. Bank Account Set-up

Setting up a business bank account is an important step that you should take when establishing your Limited Company. All money that is received through trading will be sent to this bank account. In the UK, there are numerous banks which you can open a business bank account.

There are many banks available for you to choose from. You should take the time to research a number of different banks and discuss their accounts to find one that best suits your needs. For example, each bank will likely have varying fees and limitations on typical banking services.

ICS can assist with helping you set up your business bank account. For more information on who we work with, get in touch with a member of our New Business team on **0800 195 3750**.

TAX REGISTRATION

You will, of course, need to register with HMRC in order for your business to pay all necessary taxes. These are broken up into three main types:

PAYE

It is important that you register for PAYE as it is through this that you will tax all of your employee's incomes. You can register for PAYE online directly with HMRC, However, ICS can do this on your behalf.

VAT

VAT (Value Added Tax) is a set amount that you must charge customers on top of your business rates. As of 2018, VAT is set at 20%. You are only obliged to register for VAT if your business's turnover exceeds a set amount every year - currently £85,000. If you need to register for VAT, you can do this online through the HMRC's website. Alternatively, if you appoint ICS we will make the relevant registrations.

CORPORATION TAX

Corporation Tax is a tax on your company's profits after you pay all employees and before any dividends are issued to shareholders. In order to pay Corporation Tax, you will need to submit an annual CT600. You will need to file your initial tax return within 12 months of your company's first year-end. However, payment is required to be made within 9 months of your accounting period.

BUSINESS INSURANCE

It is very important that you ensure your business has all necessary forms of insurance. This can help to protect you in case of a number of unwanted eventualities. The types of insurance you'll need will differ dependant on your contract. However, here are the three types of business insurance most common amongst contractors:



PROFESSIONAL INDEMNITY INSURANCE

If your business is alleged to have provided incorrect information or a service that causes losses for another business, then you will need professional indemnity insurance. It is used to cover your legal fees for such cases brought against you and any damages that must be awarded if your business is found guilty.

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EMPLOYERS' LIABILITY

If your business has any employees, then you must have this insurance. It covers you in case someone has an injury and decides to sue your business. The only circumstance by which you are not required to have this insurance is if you are the sole employee of the company and own a stake in the company of at least 50%.



PUBLIC LIABILITY

By law, your business has a duty of care to anyone who might be affected by the services you perform. In case someone does get injured or an accident occurs, then you will need public liability in order to cover the costly legal proceedings.

As part of our accounting service, you can benefit from our block policy insurances within our standard £125^{+vat} per month. Visit our site on www.icsuk.com for more information about our service.

COMPANY TRADING

Once your business has gone through the legalities discussed above, you are then in a position to start trading. Here is an overview of some of the common duties you will have to perform correctly as a limited company.

INVOICING

Invoicing is necessary for your business to receive payment for work you have performed for clients. Once you perform your set work, you should carefully fill out the invoice and submit it to the client in order for them to then transfer money to you by your desired form of payment.

There is no set layout for an invoice, but here is what must be included:

- The invoice number. A sequential number that follows on from invoice to invoice.
- Your company's name
- The company's address
- The company's registration number
- The company's VAT number (if VAT Registered)
- A proper description of the services and/or goods provided to the client
- The time at which these services/goods were supplied
- The cost of each good/service both before and after VAT
- Summation of the total amount payable both before and after VAT
- How the client should pay and the date by which payment is required
- The client's name and address

COMMON EXPENSES

If some personal expenses have been incurred “wholly and exclusively” for trade purposes, then you can claim these back from the company. There are so many kinds of expenses, and again, these can vary depending upon the nature of your business. But here is an overview of the most common business expenses:



BUSINESS TRAVEL

If you are travelling to perform some form of business-related service, then you can claim back on the cost of your travel. This could be for a train ticket, for example. Or, if you are using a personal car, you can claim back on the fuel that you use. You are eligible to claim for business travel as long as you remain within HMRC’s ‘24 Month Rule’.



SUBSISTENCE

It’s usual for employees to claim back on food-related expenses. This could be lunch if it is a day-trip, or, if it is an overnight trip, then subsistence could include dinner, breakfast and even laundry services. For more information on what types of subsistence you can claim, contact us on 0800 195 3750.



ACCOMMODATION

If someone is required to spend a night away somewhere “wholly and exclusively” for the purpose of business, then the cost of the accommodation can be claimed.

COMMON EXPENSES (CONTINUED)



USE OF HOME OFFICE

HMRC will not challenge reasonable claims when there is minor use of home. It seems reasonable therefore to assume that rather than attempt a calculation HMRC will allow at least the same allowance that HMRC allows employees who are homeworking. This amounts to £10 per week from 2020/2021



ACCOUNTANCY FEES

Accountancy fees fall into the category of "wholly and exclusively" for business use. As such, any additional fees experienced while performing business accountancy can be claimed back.



MOBILE PHONE

When purchasing a mobile phone it is much better to purchase a mobile phone/contract in the company name through the company bank account or with the company credit card. Each member of staff may have one mobile phone handset. This is best practice, and ensures that you can claim the maximum in expenses and the company can claim the cost of the whole bill, even if there is an element of personal calls included.

COMMON EXPENSES (CONTINUED)



INTERNET CONNECTION

It is possible to claim back the cost of home internet connection, as long as the majority of all internet usage is for business-related services. Again, the contract for the internet must be between the internet provider and the company.



TRAINING COSTS

The cost of training employees can usually be classed as a business expense. If the employee will be developing a completely new skill, then the total cost of training can be classed as capital expenditure. This can then be written off against your future revenues.



ANNUAL EVENT

Annual events (such as christmas parties) can be classed as a business expense as long as all of the company's employees and partners are invited and the total cost of the event does not exceed £150 per head, including VAT.

HOW TO PAY YOURSELF

Paying yourself correctly is an important part of managing your Limited Company. By properly making use of certain taxable allowances and forms of payments, you can ensure you maximise the amount you receive. There are **three key ways** in which you can extract money from your company. These are:

SALARY

As director, you are able to decide which salary you'd like to take. You will then need to pay income tax on the amount, as well as corporation tax on any revenue left in the company after taking this salary. Making NI contributions will build up your entitlement to claim a state pension.

Here is a quick look at three different salaries you could take and the final "take-home salary" you will be left with (assuming the company generates revenue of £75,000).

Taking £67,000 salary

After paying NI, corporation tax, dividends and income tax, you'd take home £47,504.

Taking £8,628 salary

After paying NI, corporation tax, dividends and income tax, you'd take home £55,551.

Taking £0 salary

After paying NI, corporation tax, dividends and income tax, you'd take home £51,638.

PENSIONS

Within a single tax year, the total amount that can be deposited tax-free to a pension fund is £40,000. This includes all personal deposits as well as those made by the business. If the deposits exceed this amount, then it will be subject to tax.

DIVIDENDS

After paying corporation tax, the company director can decide to either keep the remaining money in the company or to distribute part or all of it as dividends. Everyone receiving dividends has an annual tax-free allowance of £2,000. Anything above this is charged at a rate depending on which tax band the person falls under.

TAXES

As a Limited Company director, you have a responsibility to ensure your business pays all of its required taxes. Also, you will need to pay any personal taxes on money you have received through the business. Here's what you need to know:



PAYE/NIC

If you pay employees each month from the company, then you should set up a PAYE scheme. This allows you to take any necessary income tax and NIC directly from the employee's monthly salary.



VAT

If your company's annual turnover exceeds £85,000, you will be required to charge VAT on your goods and services. VAT is set at 20%. So, if you would typically charge £1,000 for a product, then you will then need to add on £200 for VAT, bringing the total cost up to £1,200.



Corporation Tax

Corporation tax is the amount charged on company revenue after all necessary expenses have been deducted. Corporation Tax is set at 19%.

TAXES (CONTINUED)

SELF-ASSESSMENT

As a limited company director, you will be required to file for self-assessment. This will mean filling out a personal self-assessment form every tax year and making sure you pay any necessary personal taxes on your earnings. You can file for self-assessment online with HMRC directly. However, the preparation and submission may be included within your accountant's annual costs.

Setting up your first ever Limited Company is incredibly exciting. However, you must pay careful attention to the necessary legalities. Hopefully this guide has helped you to understand your roles and responsibilities as a director. If you require any assistance with the process of establishing and running your company, then we are here to help.

For any further information, get in touch with ICS and we can provide you with additional tax guidance.



OUR SERVICE

	PLUS
SUPPORT	
Direct Dial & E-mail to Dedicated Accountant	✓
Monthly Call with Dedicated Accountant	✓
ACCOUNTING	
Limited Company Formation* (£100 + VAT)	✓
Registration onto relevant company tax schemes	✓
Access to FreeAgent - Online Accounting Software (£25+vat P/M)	✓
Monthly Bank Reconciliation	✓
Preparation and submission of quarterly VAT returns	✓
Preparation and submission of Monthly Payroll	✓
Preparation and submission of Confirmation Statement	✓
Preparation and submission of Year End financial statements	✓
Preparation and submission of Corporation Tax return	✓
Preparation and submission of Year End payroll returns	✓
Preparation of Director & Shareholder's Self-Assessment Tax Return	✓
Pension Auto-Enrolment Service	✓
Monthly Bookkeeping Service	—
Access to ICS Umbrella Service (£+VAT PM)	—
CONTRACTOR INSURANCE (IF YOU WISH TO DO SO, YOU CAN BENEFIT FROM OUR BLOCK POLICY INSURANCE).	
Public Liability Insurance (£+VAT PM)	✓
Professional Indemnity Insurance (£+VAT PM)	✓
Employers Liability Insurance (£+VAT PM)	✓
EXTRA PERKS	
ICS Money - Access to financial products,	✓
Unlimited IR35 Contract Reviews (£75+VAT)	✓
References (Mortgages etc) (£+VAT PM)	—
ADDITIONAL CHARGES	
Registered Office Address (£10+VAT P/M)	—
Registered Service Address (£10+VAT P/M)	—
Additional Self-Assessment Tax Return (£100 + VAT)	—
	£125^{+VAT P/M}

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