ics Accounting

LIMITED COMPANY GUIDE



CONTENTS

INTRODUCTION	3
WHAT IS A LIMITED COMPANY?	4
LIMITED COMPANY SET-UP	5
TAX REGISTRATION	6
BUSINESS INSURANCE	6
COMPANY TRADING	7
COMMON EXPENSES	8
HOW TO PAY YOURSELF	9
TAXES	11
IR35	12
OUR SERVICE - WHAT IS INCLUDED?	13



INTRODUCTION

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

Setting up a limited company can seem like a complex and confusing task with so much to understand and get your head around. This guide aims to help you better understand what a limited company is and how it operates.

This guide shares our decades of experience working with contractors and freelancers, explaining in more detail about:

- What a limited company is
- Information on 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!

If you have any questions about the information in this guide, please don't hesitate to contact a member of our highly trained team of experts on **01524 580720** or email **info@icsuk.com**.

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

Your ICS Team



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

We recommend getting in touch by calling **01524 580720** or email **info@icsuk.com** so we can advise on the best options available.

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:

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.

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 advise based on your circumstances, we suggest getting in touch with our team.

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 wish to use an alternative address to manage your incoming mail.

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.

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, on your instruction if you wish for us to do so we can register you for PAYE on your behalf.

VAT - VAT (Value Added Tax) is a set amount that you must charge customers on top of your business rates. VAT is set at 20% however can be subject to change. You are only obliged to register for VAT if your business's turnover exceeds a set amount every year - currently £90,000. If you need to register for VAT, you can do this online through the HMRC's website. Alternatively, if you instruct us to do so, we can register you for VAT.

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.

FLAT RATE VAT

You may wish for your company to be registered for Flat Rate VAT. This is a standard offering as part of our service and we would only register on your instructions to do so. Flat Rate VAT means that clients have their own percentage based on the trade sector. During your welcome call with your dedicated accountant, we will assess whether we believe the limited cost trader rules would be relevant based initial assumptions. We will also discuss the appropriate percentage based on your current trade sector.

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.

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.

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 sequential invoice 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 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 or, if you are using a personal car, you can claim back the fuel



SUBSISTENCE

Employees can claim back on food-related expenses. This could be lunch if it is a day-trip, or, if it is an overnight trip, subsistence could include dinner, breakfast and even laundry services.



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.



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.



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. The contract 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.



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. The cost of the event can’t exceed £150 per head inc 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 as follows:

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.

Whilst ICS Accounting can provide advice, as the Director of the business it is your responsibility to determine your remuneration.

PENSIONS

Within a single tax year, the total amount that can be deposited tax-free to a pension fund is £60,000 (subject to change). 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 £500 (subject to change). 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 £90,000, 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 25%. Small Profits Rate: 19% (profits of £50,000 or less).

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 Accounting.

IR35

WHAT IS IR35?

The IR35 legislation came into force with the Finance Act of 2000. Its purpose is to determine if contractors are 'disguised employees' and therefore liable for full PAYE and National Insurance via deemed salary.

WHAT DOES IT MEAN?

An IR35 status on a particular assignment determines whether individuals can take advantage of the tax benefits of operating through a limited company.

The status depends on whether, when ignoring the contractual chain that includes the limited company, an individual is effectively an employee of the client they are working for when considering specific indicators.

IR35 status could vary from assignment to assignment, so it must be reviewed each time you begin working on a new contract.

WHAT ARE THE IR35 CHANGES

Legislation changes to IR35 came in to effect on 6 April 2021 for contractors working in the private sector. The public sector changes came in to effect in 2017.

The changes means a contractor is no longer responsible for determining their own IR35 status, it will be the end client where the assignment is being carried out, that decides the IR35 status of a contractor's assignment. They then take on financial responsibility for potential underpayment of taxes.

The contractor's end client will be required to carry out an IR35 assessment for each assignment and pass the Status Determination Statement (SDS) assessment to each party in the supply chain, including the contractor.

HOW CAN ICS ACCOUNTING HELP?

ICS Accounting has developed its own IR35 role assessment tool, which determines where a contractor is within IR35. The tool delivers an instant 'inside' or 'outside' IR35 decision, together with steps to be considered. If you would like further information on our IR35 assessment tool, please get in touch with us.

OUR SERVICE - WHAT IS INCLUDED?

Below is a list of the services included in our limited company solutions:

Complete Package	Enhanced Package
Limited company formation	Limited company formation
Registration in relevant company tax schemes	Registration in relevant company tax schemes
Access to FreeAgent – Online accounting software	Access to FreeAgent – Online accounting software
Monthly bank reconciliation	Monthly bank reconciliation
Quarterly VAT returns	Quarterly VAT returns
Monthly payroll	Monthly payroll
Confirmation statement	Confirmation statement
Year-end financial statements	Year-end financial statements
Corporation tax return	Corporation tax return
Year-end payroll returns	Year-end payroll returns
Director and shareholder self-assessment tax return	Director and shareholder self-assessment tax return
Pension auto-enrolment service	Pension auto-enrolment service
Access to financial products	Access to financial products
Unlimited IR35 contract reviews	Unlimited IR35 contract reviews
Direct dial & e-mail to a dedicated accountant	Direct dial & e-mail to a dedicated accountant
Quarterly call with a dedicated accountant	Quarterly Teams Meeting
	References for mortgages etc
	Quarterly Management Accounts
	Change of Address with HMRC/Companies House
	Shareholding Changes
	Benefits Portal – one-stop-shop to save money and stay healthy

ADDITIONAL CHARGES

Complete Package	Enhanced Package
Shareholding Changes	Additional self-assessment tax return
Change of Address with HMRC/Companies House	Access to ICS Umbrella solution
Additional self-assessment tax return	
Access to ICS Umbrella solution	
References for mortgages etc	

For more information on our Limited Company advisory services, as well as our fees please call us on **01524 580720** or email **info@icsuk.com**.



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