

# New Private Limited Company Help-sheet

## Who needs to Know?

All suppliers and customers need to know that they are dealing with your company rather than you as an individual. If you are transferring your existing unincorporated trade into your new company you should notify all existing business contacts, eg by letter or email.

## Cancel your Class 2 NIC?

If you are ceasing to trade as a sole trader or partnership you should cancel your direct debit for your self-employed national insurance.

## Letterheads & Emails?

Your company paperwork (both hardcopy and electronic) should show the name of the company, the registered office, its registered number and its place of registration. If it adopts a trading name (by a vote at a meeting of Directors) documentation should state that the name is a trading name of the company. All this should also be shown legibly on the company website if you have one.

## Bank Account?

To open your company bank account your bank will require a copy of your certificate of incorporation and your articles of association, so you cannot do this before the company is formed. Also the company cannot undertake any transactions before it has been formed, so you need to form your company sooner rather than later if you are intending to incur any pre-trading expenditure.

## Directorship?

Your relationship with your company will be that of shareholder and/or director. The company and your financial affairs are completely separate, so you have no access to funds within the company unless they are legally paid out to you as salary, dividends or loan repayments. All of these methods have potential tax consequences.

## Employer's Liability Insurance?

The company must have at least one director. This person is technically an employee so employees' liability insurance is a requirement.

## **Remuneration Strategy?**

As a director you may wish to have a salary. You may decide that the company can pay you sufficient to ensure that your national insurance record is kept up to date but not so much that you have to pay any national insurance. Such a salary should not exceed commercial recompense for work done by you, a record of it would have to be returned to HMRC via a PAYE scheme, and the payment of it should be recorded in your books and records. You could similarly pay a salary to other family members or contacts who work for your company, but in such cases the net pay should be to be paid to the individual, as it would be with an unrelated employee.

## **Voting Dividends?**

As shareholders you may decide to receive a share of the company profits as dividends. Interim dividends may be voted at a directors' meeting provided there are sufficient retained profits already in the company to cover them. Records of such meetings should include, who was present (it can be a virtual meeting), what evidence was considered to prove that there was sufficient profit and what dividend was voted. The dividends should be recorded in the company books at the time of payment and are paid pro-rata to the share ownership. As individuals who are not higher rate tax payers pay no extra personal tax on dividends, this can be a very tax efficient way of extracting funds from the company. Thus the procedures for payment of dividends must stand up to scrutiny and be done diligently. A sole director would have a meeting with him or herself. A stencil for the minutes of a Directors' meeting, for you to complete when you vote a dividend, is on our website.

## **Paying You Interest?**

If your company pays interest to you on funds you have lent to it, there is likely to be an obligation to deduct basic rate tax at source and complete a form CT61 on the interest payments.

## **Overdrawn Director's Loan Account?**

You can borrow money temporarily from your company so long as the amount totals less than £5,000 and is repaid in full, no later than 9 months after your company year end. If you borrow in excess of this, or don't repay the loan by the due date, there are tax consequences which may be expensive.

## **Rent paid for Property Owned by You?**

If the company trades from premises owned by you it can pay you a commercial rent. However if your company is trading from your home it can cause capital gains tax problems if you charge the company more than the 'use of home as office' agreed rate (currently £3 per week).

## **Company Car?**

The company can provide you with a company vehicle. However it has been HMRC policy to make the provision of company vehicles increasingly expensive tax-wise. Unless you are running a vehicle with very low emissions it is likely that owning the car yourself and charging the company the HMRC agreed business mileage rate (currently 45p) is likely to be the most cost effective solution. However no allowance is available in the absence of a log of the miles claimed.

## **Mobile Phone?**

Currently there is no benefit in kind charge for one mobile phone supplied by the company per employee, irrespective of the extent of private use.

## **Registering for VAT?**

If your company makes VAT-able supplies it will have to register for VAT when it reaches the VAT turnover threshold (currently £73,000 pa). If the company takes over an existing VAT registered business, previous turnover is included, so it is likely that the new company would need to be VAT registered from the start. If the bulk of the company's customers are VAT registered a voluntary VAT registration may be advantageous, even where the turnover is below the threshold. VAT registration can easily be done online and it is recommended that you arrange to have your VAT quarter ends to coincide with your company's accounting year end. There are a variety of VAT schemes available, to reduce the compliance burden on small businesses on which we can advise.

## **What is Tax Deductible?**

In order for expenses to be tax deductible for a company they must be incurred 'wholly, exclusively and necessarily' for the trade. There are lots of tax cases where the boundaries of what these requirements mean have been tested. We suggest that any expenses incurred by your company, that you think are genuine business expenses, should be recorded in your books and records. Certain items such as entertaining (including for foreign customers) are generally not allowable and need to be added back in the company corporation tax computation. However this is likely to still be tax advantageous by comparison to a taxpayer having to pay for such items out of his personal after tax income.

## **Evidence Required?**

Goods or services claimed as business expenses should be recorded in the company books and supported by purchase invoices. For input VAT to be reclaimed a valid VAT invoice addressed to the company is needed, which generally should show the VAT separately, the rate at which it has been calculated and the supplier's VAT number. It is now a requirement for sales invoices to be consecutively numbered.

### **Benefits in Kind?**

If the company pays personal bills for its directors these should either be charged to the director's loan account or taxed as a P11D benefit. VAT is not normally reclaimable on personal items paid by the company for its directors, for example if the company pays for the preparation of individuals' tax returns. Perks paid to employees, for example cars, would also go on the annual P11D form and items provided part way through the year should be notified to HMRC at the time, so that the employee's tax code can be adjusted when the benefit starts.

### **Companies House?**

Annual accounts need to be filed at Companies House. The first one has to go in within 21 months of the date of incorporation and thereafter the deadline is 9 months after the company year end.

### **HMRC?**

Accounts and corporation tax computations have to be filed with HMRC within 12 months of the company year-end and the corporation tax for a small company is payable 9 months after the year end.

### **Company Pension Requirements?**

By 2016 any business with 1 or more eligible employees (eg a company employing just you?) will be subject to the new NEST requirements to pay pension contributions.

### **Caveat Emptor?**

Almost all aspects of company compliance and administration are subject to fines and other penalties if infringements occur. Incorporation should not be embarked upon unless you are going to take the regulations seriously.

#### **Disclaimer**

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