

DNS

Accounting Group



Limited Company

Guide

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Limited Company

A limited company is a type of business structure, which is incorporated into a legally distinct body. If an individual opts to run the business as a limited company, the business will

- be legally distinct from the person responsible for running the business;
- maintain separate finances for both business and personal finances; and
- own assets.

To set up a limited company, an individual needs to register it with Companies House – the process of registration is called incorporation. An individual can register his / her limited company online or via post. DNS Accountants can assist with the registration process on behalf of the business.

When registering, the following details will be required:

- Complete name and registered address for the company
- Name and address of company directors, and company secretary (if appointed)
- Shareholder details and share capital

If you have a new business in mind and want to join with over 500,000 people a year turning their ideas and enthusiasm into a new UK company, the very first step in doing so is to understand and decide these.

A Limited Company

You can choose your own name for your company, as long as it is not too close to another on the register at Companies House. There are certain names that are restricted so do check it out first.

The last part of the name is compulsory, dependent on the type of company.

Limited Companies are of two main types:

- **Public Limited Company (Plc)**
- **Private Limited Company (Ltd)**

The registered address is the legal location of the company. It must be in the jurisdiction of registration i.e. in England or Wales for a company registered in “England & Wales”. It must also be a proper address – not just a PO box.

This address is used for the service of any legal documents to the company, and may also be used as a service address for Directors, in order that their private addresses are not on the open public register.

Public Limited Companies:

A Public Limited Company, also known as PLC is a company that is able to offer its shares to the public. They don't have to offer the shares to the public, but they can do that, if they want to e.g. on the stock exchange. A Plc has to have at least 2 directors, and a qualified company secretary. For a public limited company to start trading, it must have issued shares of value £50,000, amongst lots of extra rules.

Private Limited Companies:

A Private Limited Company, known as Ltd is quite similar to a public limited company but it can be run with just one member and it cannot offer its shares to the public, even if it wants to. It also has not got the extra rules.

Directors & Company Secretary:

Directors are the persons appointed to look after the company. They are responsible for everything that it does, have special rules and regulations imposed upon them accordingly, and are expected to act in the best interests of the company, at all times.

In law a Director has 7 key duties: -

- To act within their powers under the company's constitution
- To promote the success of the company
- To exercise their own independent judgment
- To exercise reasonable care, skill & diligence expected
- To avoid conflicts of interest
- Not to accept bribes or excessive benefits from third parties
- To formally advise the company of any outside interests in business transactions

A Company Secretary is an assistant to the Directors, responsible for keeping the public records up to date; it is not compulsory for a private limited company to appoint a company secretary.

Shareholders:

Shareholders are the owners of the company. They are often the investors too. They own shares in the company and receive dividends as the reward for their investment. They appoint the Directors to run the company for them, so they need have no hands-on involvement.

A small private company may just have one person who is both Director and Shareholder.

Share capital:

Share capital is the value of shares the company has issued. A company must decide how many shares it wants to issue and for each type or class of share

- the face value (called the Nominal Value),
- the accompanying voting rights,
- the right to receive dividends and
- the right to the proceeds on a company sale or closure.

These shares are then issued or sold to shareholders. A shareholder is due to pay the company at least the Nominal value for their shares. If they pay less, then the outstanding balance is "uncalled" and could be demanded later. If they pay more than this is called share premium.

Advantages of a Limited Company

At present, there are over 3.5 million limited companies incorporated in the UK who have chosen it in preference to a sole trader or partnership structure. The private limited company structure is a proven successful business model where the business owners hold all the shares of the company.

There are a number of advantages associated with a Limited Company. Some of these are as follows:

Easy start up:

The Companies Act 2009, which was effective from 1st October 2009, made it easier to run a limited company and it can be done online now.

Separate legal entity:

Limited Companies enjoy permanent succession because they are their own legal entity and thus, even if the shareholders and employees leave the company, it does not affect the company. Since it has its own separate legal entity; in the event of a death or resignation, the shares and directorship are just taken over. Discontinuation of the private limited company occurs only in the case of dissolution or liquidation or by an order of the courts or the registrar of companies.

Limited liability:

The biggest advantage of a limited company is its limited liability feature. Limited companies are treated as a separate entity and thus if there are any debts, the company is responsible i.e. if a company is unable to pay its debts, the shareholders will have to pay up only as per their share or agreed contribution (nominal value of their shareholding) which can be tiny. So, with the private limited structure, you can take more calculated business risks without the fear of losing everything to uncertain and unexpected situations.

Greater opportunities for tax planning:

One of the main advantages of forming a limited company is that it provides greater opportunities for tax planning and is subject to lower corporation tax. Corporation tax is applicable at the rate of 19% on the profits, irrespective of the amount of profit, which is not the case with sole traders. Dividends are one of the ways through which members can make more tax savings.

Professional status:

There is no doubt that on the sound of "limited", adjectives like "credible", "permanent", "reliable" get automatically associated with the name of the company and hence enhance its credibility. It gives a sense of confidence and incorporating a business as a limited company can open up more business avenues.

Dormant companies:

If you have an idea/name for a business but not yet the time and capital to develop it, you can set up a company with your desired name and keep it dormant, i.e. no activity in that particular financial year.

Better control over your finances:

Setting up a limited company means you are dealing with the clients directly and have control over your business and finances. Whereas, if you are using the services of an umbrella company then you have to rely on the umbrella company for your earnings.

Raising funds:

A company can issue shares to raise funds. In the case of a public limited company, you can raise large sums of money, each with just a small stake (share of the company). You can raise funds tax efficiently from your investors if you register your company for SEIS or EIS Schemes. Registration of such schemes is only available to a Limited company or an LLP and not to a Sole Trader or Partnership.

Liquidity for Shareholders:

Shares in a public limited company are easily transferrable and thus it provides liquidity for its shareholders.

R&D Tax Credit Support from the Government:

A Limited company involved in research and development can get R&D Tax credits in the form of an adjustment to your tax bill or refunds which are quite generous for business. Unfortunately, this tax credit is not available to sole traders and Partnerships.

Exit strategy:

Going public can enhance the options for the founders to exit the business at some point in the future, if they wish to do so. Both higher transferability of shares and the increased visibility of the business and its performance may increase the chances of bid interest from potential buyers.

Disadvantages of a Limited Company

Privacy:

A limited company needs to keep Companies House informed of all changes in Directors and persons of significant influence.

Paperwork:

A limited company needs to keep track of all payments as it is obligated to keep track of all assets and liabilities and be able to identify them at any point in time. You can-not just draw money, every penny drawn need to be accounted for, as wages, expenses, dividends or loans and recorded accordingly. The rules and regulations that need to be abided by are vast.

Reporting:

A limited company needs to prepare full statutory accounts, according to regulations, for submission to HMRC, as well as making submissions to Companies House. There are also reporting rules and requirements for wages, benefits in kind, VAT, interest payments and some share issues; all with penalties for missing deadlines.



The Business

A company has been set up by a member or group of members - usually for business i.e. the selling of a product or a service, or the exploitation of an asset, with a view to making a profit. All the usual considerations apply to that business, whatever it may be.

Have a clear product or service

A business is selling a product or a service with a view to making a profit. You may buy in that product or service or create it yourselves.

So,

- What is your business going to sell?
- Who are you going to sell to?
- How are you going to obtain or create that product or service?
- How are you going to get it to customers?

The answers to these questions can contribute to how you create a clear and unique product or service to promote and sell.

When you know the answers to these, you can start to plan your business.

Price your product or service right - enough to make a profit

Now you know what you are planning to do, we need to see if the idea is viable – will it make a profit? There are several elements to making a profit but number one is price.

The price you charge must be one that customers are happy to pay but also one that will cover ALL your costs and gives you a reward on top.

Market research can be a key to seeing what customers will pay.

But budgeting costs can be more difficult: -

- What are different suppliers offering? bulk discounts, lead times
- Should you outsource or make it in house? cost, quality, time
- What do you prioritise? health, environment, cost, quality
- Do you plan to sell lots for a small profit each or a few at a big profit each?
- What about premises and plant – do you build, buy or hire?
- How do you do the admin? What are the costs?
- How do you finance all of these?
- And finally – what about taxes?

Only if you have covered all the costs do you make a profit.

Formal budgets may seem like time wasted but they can really help you understand your business, where the money is going, what to monitor and even help you to get finance.

We are happy to assist in the preparation of budgets and cash flow forecasts as well as full business plans. And if you need finance, we have a full range of contacts to assist you with loans that are right for your business.

Create your own website

Having a website for customers and potential customers to find is now an essential to most businesses.

A website is your virtual shop. It's a place where you tell the world about what you do, who you can help and where you can educate customers and the world about your product and services. It's one of the most important and essential tools these days to start networking, and building the business relationship, where you can educate / tell / explain as you interact with the potential client.

But your website can now be used for so much more – promotions, sales and lead generation, actual selling, providing information and as a user forum to name but a few.

DNS Group can help you set up a Website that is a great tool for your business

Create your own email

An email address is also an essential business tool. It is usually associated with your domain name and website address so care needs to be taken in choosing a good one.

- Test it out – what do people find if they search for you – your chosen address
- Who is using something similar – typos etc.?
- What is the cost? – do not forget to renew regularly
- Make sure you buy from a reputable supplier
- Take care to buy it before you use it (or even register your company) or you could lose it

Remember that your email set up makes you look professional and the positioning of the business to end clients is very important. If you do business these days without emails with Hotmail or Google accounts, there is a risk that your business may be considered too small or less professional. DNS Group can help you get set up with emails.

Select the right accounting software to raise invoices and maintain books

Technology is often more efficient than relying on manual procedures. Cloud accounting platforms employ a range of refined algorithms that help automate the process of entering data and computations, and can also robotically update or amend balances when an adjustment is made. Cloud accounting solutions also permit more integration with other accounting tools such as HMRC services, inventory management platforms and payroll providers. Our cloud accounting software operates under a Software-as-a-Service (SaaS) business model, where customers pay a relatively small monthly fee on a regular basis, rather than having to pay a huge amount upfront.

DNS Group provides free cloud software to clients to help them raise invoices, collect invoices and pay invoices all in time. It's a very important part of business that you stay on top of your invoices as rightly said Cash is King.

Select the right accountant

A good accountant should have an in-depth knowledge to deliver work in a timely manner, to the uppermost standard and in agreement with all financial and legal regulations. They can help you to reduce operational costs by taking away the burden of managing a dedicated in-house workforce for accounting and taxation. In turn making it possible for the business owner (you) to focus their attention on maximising revenues and profits. It can be challenging to also be on top of a variety of legal reporting requirements and filing deadlines. DNS Group offers small businesses with accounting services to help them stay compliant with the UK accounting legislation and tax rules. Our team of ACA's and CA's are up-to-date and stay on top of deadlines, eliminating the hassle of accounting obligations for small businesses and freelancers or contractors.

Work on your books – stay in control!

Good accounts management is vital for business success, for processes both big and small. For small business or start-ups, it is fundamental to get this right from the start, so that the growth of the business is not hampered. In order to make the business scalable individual business owners need to maintain a sound financial structure.

We as accountants can help small businesses understand the position of the business and assist in the maintenance of financial documentation. Rather than considering this a tedious task, businesses should take an active interest in taxation and accounting issues as this will help in running the business better.

Staying in control means you are on top of your cash flow too which can only happen with keeping your books up to date and reconciled. DNS Group with its support can help you stay in control of books and cash flow.

Expenses you can Claim

What are allowable expenses?

All businesses will incur some form of expenses. The amount and type will vary from business to business. Expenditure must be “wholly and exclusively” incurred for trading (business) purposes for it to be claimed back for tax calculations.

The company may pay for almost anything it wants to, but there are strict regulations on what is tax allowable and how to report and tax what is not. Hence it is usually best to stick to what HMRC will allow and what is standard practice.

Trading as a Limited Company, an individual may incur some costs personally; only if these have been incurred “wholly, exclusively and necessarily” for the business may they be reimbursed by the company. If expenses conform to HMRC rules of what may be claimed, then these reimbursed expenses may be tax and reporting free.

Directors and other business Employees may receive various things from the company by way of remuneration. All count as part of employee costs for corporation tax purposes. They are generally broken down into three categories for reporting purposes

- Wages – i.e. cash and associated taxes – reported regularly as paid
- Taxable benefits e.g. company car, health insurance – usually reported annually
- Tax free benefits e.g. pension premium - not reportable

Claiming business expenses accurately can decrease the tax bill so it is imperative to take time to understand what can and cannot be claimed. Business owners can enter into discussion with DNS Accountants to provide them with guidance with regards to claimable expenses. We can help them to understand what is classed as an expense and the process involved in making a claim.

In principle, a limited company can deduct any type of business expenses from turnover provided these aren't specifically disallowed by HM Revenue and Customs (HMRC).

Here are the main categories of expenses you may consider putting through your company: -

- Advertising and costs of marketing the business
- Bank charges including payment collection fees
- Books & magazines for reference or research
- Business rates & licenses
- Charity donations and sponsorship
- Commission, royalties etc.
- Company assets
- Company formation and ongoing costs (e.g. confirmation statement fee);
- Computer equipment and software

- Employer's national insurance contributions (NICs) payable on salaries paid to company employees
- Entertaining
- Goods for resale
- Hire purchase interest & fees
- Insurance, such a professional indemnity insurance
- Interest charged by lenders or on late payment
- Lease payments – office, equipment or vehicles etc.
- Mobile and Smartphone expenses (if contract is in company name)
- Office equipment and decoration
- Parts & materials used for sales
- Professional fees, such as accountant or solicitor
- Promotional gifts up to £50 per item
- Protective clothing & uniforms
- Rent for business premises
- Repairs and maintenance of business equipment or premises
- Salaries – including bonuses and sick pay etc.
- Subcontractor costs
- Staff benefits
 - Annual health check
 - Christmas party (exemption for Directors and employees up to £150 per person per year)
 - Eye test when an individual is working on computer equipment
 - Health insurance
 - Mobile and Smartphone expenses (if the contract is in the company name)
 - Pension contributions
 - Professional subscriptions, if allowed by HMRC
 - Staff canteen costs
 - Trivial benefits up to £50 per item (capped for directors and their household)
- Stationery, postage, and printing costs
- Telephone and internet expenses
- Travel & subsistence expenses for business journeys
- Tools and consumables
- Training course fees as long as the skills are relevant to the business
- Utilities costs – for company premises – Gas, Electricity, Water
- Vehicle running costs – for company vehicles only
- Website development and maintenance

Additional Expenses that can be claimed through a Limited Company

- Accommodation costs when away from usual place of business
- Home office costs (a flat £4/week without receipts is permitted by HMRC)
- The cost of business calls can be reclaimed on a residential phone bill
- Incidental overnight expenses of £5 per night (£10 per night if overseas) can be claimed if an employee is working away from home overnight on business
- The cost of subsistence while away from usual place of business – or HMRC benchmark rates
- Mileage allowances at HMRC rates

Valid Business Expenses include:

Travel Expenses:

Employees can claim their work travelling expenses to a temporary workplace.

Car mileage can be claimed at 45p per mile for the initial 10,000 miles and post that 25p per mile in a given tax year, for travel in a private vehicle. The mileage allowance covers car servicing and taxes, petrol expenses, insurance charges, and other additional running costs associated with the vehicle. If travelling with a business passenger in the car, then he / she is entitled to claim an extra 5p per mile.

Motorbike mileage can be claimed at 24p for each 'business' mile and 20p per mile if he / she prefers to cycle to work.

Additionally, London congestion charges and car parking charges also form part of allowable travel expenses.

A temporary work place is one that passes the 24 month rule E.g.

Dema has worked for an employer for five years, during which she has always been based at their head office in London. In these 5 years, she was sent to Solihull to perform her duties at a secondary office for 18 months. Since, she was there for 18 months; Dema can claim travel expenses between her home and the Solihull office as a temporary workplace.

Subsistence:

An employee travelling on business can claim subsistence costs e.g. a meal or coffee stop. The actual costs incurred or alternatively, the employee may claim the benchmark rate set by HMRC.

- UK Rates - £5 for 5 hours, £10 for 10 hours, £15 for 15 hours and £10 extra if after 8pm
- Overseas rates are per hour in the country and are set per city

Accommodation:

Only actual costs incurred are allowed for UK accommodation, but the benchmark rates for overseas subsistence include accommodation options per city. Meals can be claimed as above. Generally, there is no fixed limit/allowance for accommodation, but your claim for the same should be of reasonable amount.

Clothing:

Cost of your everyday wear is not a part of a valid business expense. However, uniform or protective clothing can be classed under valid business expenses. Uniform is defined as a set of clothing of a specialised nature that is recognisable as a uniform and is intended to identify its wearer as having a particular occupation. Protective clothing is defined as that worn as a matter of physical necessity because of the nature of the job.

Training:

Work related training provided by an employer to its employees is allowable. Training costs are not however allowable if paid for by the individual employee. Related costs such as travel to the course, course materials and exam fees are also allowable, as are integrated costs such as meals and event activities. However, expenses in the nature of reward, inducement, recreation or entertainment are specifically not allowable.

Pre-Trading Expenses:

There are certain expenses which are incurred prior to the setting up of a company like meeting clients, phone bills or equipment costs. If these expenses are incurred in anticipation and made within 7 years of your first day of business, you can claim them as business expenses.

Home-Office Costs:

If you spend business time at your home office, you can claim a percentage of the additional costs of using your home for business e.g. electricity bill, broadband charges, telephone bill, metered costs of gas and water. However, if you are using your home-office only for paperwork and accounting, you may prefer to claim the £4 per week allowance rather than doing the calculations.

Pension Contribution:

If you wish to top up your pension then it is very tax efficient to do this via your employer, either as salary sacrifice (e.g. employees) or just extra remuneration (e.g. directors). Remember there are caps to investment in pensions so do talk to a financial advisor about this.

Computer Equipment and Software:

Costs/expenses incurred in purchase or maintenance of computer equipment, hardware and software can be classed as a valid business expense, as long as it has business use.

Accountancy Fees:

Any payment to your accountant, or other professional, as a part of your business, you can claim through your limited company. This does not include payment for your personal tax.

Annual Staff Event:

If you are hosting an annual event for your limited company staff, you can claim the expenses through the company; and it will not be taxable on those staff members provided these conditions are met:

- It happens every year i.e. is annual
- It is an event i.e. booked not ad hoc
- All staff (at that site) are invited (can include subcontractors)
- Annual cost per head of all such events does not exceed £150, including VAT.

Eye Tests:

The company can pay for an eye test for each employee required to work in front of laptop/monitor or any kind of display screen for at least an hour daily.

Professional Memberships:

The company can claim the cost of any trade or business club membership. However, HMRC have a list of the only allowable personal professional membership subscriptions that are tax allowable.

Health Insurance:

Medical and Health insurance can be classed as a valid business expense, however most such policies are then taxable on the individual employee as taxable benefits. A Permanent Health Insurance (PIH) Policy may be tax allowable but needs to be in the name of your company.

Working as a director or an employee to your company gives you an added advantage of claiming valid business expenses through it, which you may not be able to do through an umbrella company. However, you need to claim your business expenses to save tax on your earnings because tax is incurred only on the profits. For example, if your company has earned £5,000 in a month and incurred £1,000 in business expenses then tax is due on £4,000.

However, you need to consult your accountant for a more detailed picture and for accounting for other factors like VAT, PAYE, and Dividends etc.

Tax Tips

Tax saving tips for limited company owners

Here are some tax and finance tips which could help you save money as a limited company owner, based on our experience of running limited companies, and dealing with accountants and tax advisors over the past 15 years.

Why pay more tax than you need to?

- Dividends are not subject to National Insurance Contributions, which represents a significant tax saving compared to the sole trader route, where NICs are payable on all income.
- As a limited company director, you may consider paying yourself in dividends and a small salary. You may pay no PAYE (income tax) or NICs at all on your salary if it falls below the current threshold.
- Whatever you do, make sure you meet your accounting and statutory deadlines, especially for submission of the Confirmation Statement and your company accounts. The penalties for late submission can be great.
- Subject to eligibility (e.g. you must have held shares in the company and been a director or employee for a year or more), you may qualify for Entrepreneurs' Relief on the sale of your limited company. The current ER rate is a mere 10%, compared to standard CGT rates of 10% or 20% (higher rate).
- Consider the timing of your dividend declarations. You may save tax by delaying drawing down profits until a future tax year, if you have already reached the higher rate (or additional rate) threshold in the current year.
- Consider splitting your shareholding with your spouse, as you could benefit from using your other half's tax allowance (especially if they have no other source of income). You should consult an accountant before considering this option, as so-called 'income shifting' is a thorny issue in accounting circles.
- Make sure you only declare dividends when there are sufficient accumulated profits in the company to do so. Penalties will apply to any dividends which have been declared illegally.
- Make the most out of the expenses you can put through your company. As long as you only ever claim for things that have been genuinely incurred on business duties, there are savings to be made. You may be able to claim for the costs of working from home, for example.
- The VAT cash accounting scheme offers more of a cash flow benefit than 'tax saving' per se – it allows you to only account for VAT once an invoice has been paid, rather than when it has been issued.
- You must register for VAT if your turnover reaches £85,000 over the past 12 months (2019/20 tax year). HMRC have recently been clamping down on businesses who have failed to do so, and you could be fined.
- Consider setting up an executive pension scheme. Your company can invest pre-tax income into the pension, saving you a considerable sum compared to investing post-tax income in a personal pension. Talk to an Independent Financial Adviser for more information.

- Why not buy a hybrid car through the company to benefit from energy efficiency tax incentives, or Electric cars or vans for maximum benefit?
- Contribute to occupational or SSAS pensions, which are highly flexible.
- Make relevant life insurance contributions from the company and claim the tax deductions
- The cycle to work scheme is a great way for staff to buy a bicycle through the company, or just get one for your business journeys to benefit.
- Take a mobile phone contract out in the name of the company and all your private calls on that one mobile phone can become tax free
- Get your spouse involved in the company as a shareholder that receives dividends or employee that received wages. Be careful to do this right as it may put you at risk of settlement legislation
- Make use of all your free allowances like annual function allowances, trivial benefits etc.
- Claim VAT on mileage.
- Do consider VAT registration even if you have turnover below the VAT threshold as you may still be able to recover VAT on business overheads and assets.
- Lend money to your company if you have spare funds and the company has a reason to borrow. Then pay yourself interest (there are special forms to report and tax this). This is an easy way to make use of your personal tax-free interest allowance, of up to £1,000 tax free if you are a basic rate taxpayer and £500 if you are a higher rate tax payer. The company will save corporation tax on these sums, and the individual may get the tax back.
- Consider getting family members involved as employees – they have tax allowances to be used and as employees are also entitled to employee benefits such as a mobile phone, trivial benefits etc.

Employing People

Directors are by default employees. So, by having a limited company you already have employees. If these directors get paid for doing their job, then you will automatically have paid employees so need a payroll.

If you are paying your employees for the very first time, you will need to register as an employer & then choose:

- When to pay your employees
- How often to pay your employees

Follow the steps given below to register as an employer:

- Register the company as an employer with HMRC and get login credentials for PAYE online.
- Choose the best payroll software in order to record employee's details such as name, address, date of joining, date of leaving, attendance as well as employee salary calculations such as calculating pay & deductions and reporting the same to HMRC on time.
- Collect & keep your records.
- Tell HMRC about your employees.
- Record salary make deductions and submit the same to HMRC on or before each pay day.
- Pay the taxes and national insurance contributions to HMRC.

It is very essential to maintain the record of your employees and update it from time to time (if any changes occur)

You should maintain the following records properly:

- What salary you are paying to your employees
- Deductions you are making.
- Employee attendance & leave dates.
- Reports and payments, you are submitting to HMRC.
- Tax code notices.
- Taxable expenses or benefits.
- Auto-enrolment pension registration, status and contributions
- Payroll giving scheme documents such as agency contract & employee authorisation forms.

Your records must show that you are paying the right amount of tax. You need to maintain these records for at least 3 years as HMRC can check these records anytime (if needed) to ensure that you are paying the right amount of tax to HMRC.

You can choose to employ people on a permanent, part-time or freelance basis– whatever suits you best.

So, now you know you can hire people and maintain your status, it's time to ensure everything is done above board.

DNS Group can assist with payroll and staff pension calculations when you are ready to start

VAT Registration

Companies must register for VAT (Value Added Tax) with HMRC, if their VAT taxable income is greater than £85,000. The company receives a VAT registration certificate when they register the company with HMRC. The certificate confirms the VAT number, details for submission of first VAT return and payment, and effective date of registration. The effective date is when the company is officially subject to VAT rules. A company can register voluntarily; apply for a VAT registration number, if the turnover is less than £85,000, except if all sales are VAT exempt. The company VAT registration certificate can be received within 14 working days, nevertheless it can take longer. The certificate is sent either to the VAT online account or by post if it's not an online registration or through a third party.

Compulsory Registration – Why should I register for VAT?

A specific company needs to register for Value added tax if:

- Taxable VAT turnover is greater than £85,000 in a 12 month period
- Goods are received in the United Kingdom from the European Union and the value is more than £85,000
- The company anticipates that turnover will cross the threshold in the next 30 days alone.

There is a zero threshold for businesses based outside the United Kingdom; the business must immediately register for VAT if they have supplied any goods or services in the United Kingdom or anticipate doing so within the next 30 days.

A company may also be required to register for VAT if a business has been taken over.

Late VAT Registration

If a company does not register for VAT within time, it is liable to pay a penalty depending on how much VAT is due for the period of the delay. As stated earlier, it is imperative for the company to register for VAT within 30 days of the business turnover crossing the threshold.

If the taxable turnover of the business goes over the threshold temporarily, the business can apply for a registration exception. A written application needs to be sent to HMRC with facts showing why the threshold will not be crossed in the next 12 months. If HMRC is convinced with the written application, they will send a written confirmation else, the business will need to register for Value added tax.

VAT Responsibilities for a business

From the effective date of VAT registration the business must:

- Charge the correct VAT amount on the invoice
- Timely file VAT Returns
- Regularly clear all VAT dues to HMRC
- Maintain VAT records

Until a company is VAT registered, it should not charge or collect VAT on sales. However, the business is liable to pay Value added tax on all sales made after the effective date of registration to HMRC.

VAT Threshold Computation

The VAT taxable turnover is the full value of goods and services sold that aren't exempt from VAT. The UK VAT threshold for registration is £85,000 (from 1 April 2017). A trader is required to register with HMRC for VAT if their total VAT taxable turnover over all their businesses exceeds this threshold in a 12 month rolling period.

To calculate if you've exceeded the threshold in any 12-month period, you need to add together the total value of sales of your products or services that aren't VAT exempt, this will include the following:

- Goods that are hired or loaned to customers
- Business merchandise used for personal reasons
- Goods bartered or part-exchanged, or given as gifts
- Services received from businesses in countries that you had to 'reverse charge'
- Building work over £100,000 your business did for itself

HMRC VAT Registration Process

Almost all businesses can register for VAT online, even partnerships; and a group of companies can register under one VAT number. Once the trader is registered online and has a VAT online account, he will need to submit VAT returns to HMRC as and when they are due. Businesses can even appoint accountants like DNS Accountants or agents to help them submit the VAT returns on time, meeting all deadlines, and interact with HMRC on behalf of the business.

It may benefit some businesses to be VAT registered as they can recover the VAT on assets and overheads, especially if their sales are zero rated e.g. farmers.

VAT schemes

The basic rule for VAT return preparation is to record the VAT on the accruals basis i.e. record each individual sales and purchase invoice based on invoice date and then report the total for the VAT period (monthly, quarterly or annually as you choose). However, there are various VAT schemes you may choose to join that may make life simpler, aid cash flow or even pay less VAT. Here are a few to think about but your accountant will help you assess which is best for you:-

- Cash accounting – you record and/or report VAT based on payment date not invoice date
- Flat rate scheme – account for VAT on sales and assets only – not purchases
- Second Hand Margin Scheme – account for VAT on profits not sales and purchases
- Retail Margin scheme – account for VAT pro-rata on total takings when selling goods at different VAT rates

VAT Registration Check – How long does it take to get a VAT registration number?

Usually, HMRC takes a month to process VAT applications, but it can take longer if HMRC needs to carry out further checks. The government of the United Kingdom claims that it can even take as little as 14 working days to process an application. HMRC intends to process 70% of applications within 10 business days and most are processed within 30 days. From the time of applying for VAT registration and getting the VAT registration number, the business must keep account of and pay all VAT dues. The business becomes liable to keep records of all the invoices from the time of voluntary registration for VAT. It actually does not matter when the business applied for registration or the date the VAT registration number was received. Business can reclaim any VAT paid on purchases from the date of registration. To do so, records of all inwards invoices from suppliers need to be maintained.

Your first VAT return

Once you have registered for VAT, then you will receive your VAT registration certificate telling you when you're first return will be due. But there is a lot to get set up before this.

Firstly, you need to know your business – and the VAT rates that could be associated with the various products or services you will be providing. HMRC produce a lot of industry specific notices to help you get it right. DNS and its accountants are always there for direction, support or clarification.

When raising invoices, you need to add the right VAT – the right set up of software can really help here.

On a regular basis you will need to submit returns to HMRC, electronically from your bookkeeping software. To do this you will need to be registered with HMRC for MTD and have connected your software. DNS accountants can do all this for you.

Getting your bookkeeping right, from the start, is a key.

- Remember to collect VAT receipts now you are registered
- Scan and store for easy reference
- A UK VAT number is required to claim the VAT paid
- VAT can only be claimed if charged e.g. there is no VAT on rail fares or magazines
- Small till receipts do not need to show the VAT separately but it may still be claimed e.g. coffee shop
- Use your software to help you be consistent in treatment
- Check VAT status for new suppliers or products

DNS and its accountants are always there for any support or clarification

Your first VAT return can include some pre-registration VAT that you may have paid; so, it is worth taking the time to find the receipts to back up such a claim.

Pre-registration VAT may be claimed on

Stock and business equipment, you have on registration date and you bought less than 4 years previously e.g.

- Van bought new 3 years ago (but not a car)
- New tyre you purchased for it last year (but not labour)
- Stock of brochures
- Half box of screws in stock
- Ink cartridge you bought yesterday
- Desk and shelves bought last year (but not installation or decoration costs)
- Costs of goods in stock awaiting sale
- Costs of part completed goods and materials

Services bought and used by the business (not customers) within the previous 6 months e.g.

- 6 months telephone bills
- Own website design paid for 4 months ago (not clients)
- Accountancy bills in last 6 months (based on invoice date)
- Adverts billed in last 6 months (not publication date)
- Own business Van service last month (labour element only – parts may come under equipment rule)
- Training bills in last 6 months

VAT Tips

- The VAT cash accounting scheme may help cash flow for small business with more debtors than creditors
- The VAT flat-rate scheme may help you save VAT.
- Remember to claim VAT on entertainment for overseas customers.
- Remember to claim VAT on expenses in relation to staff functions and office parties.

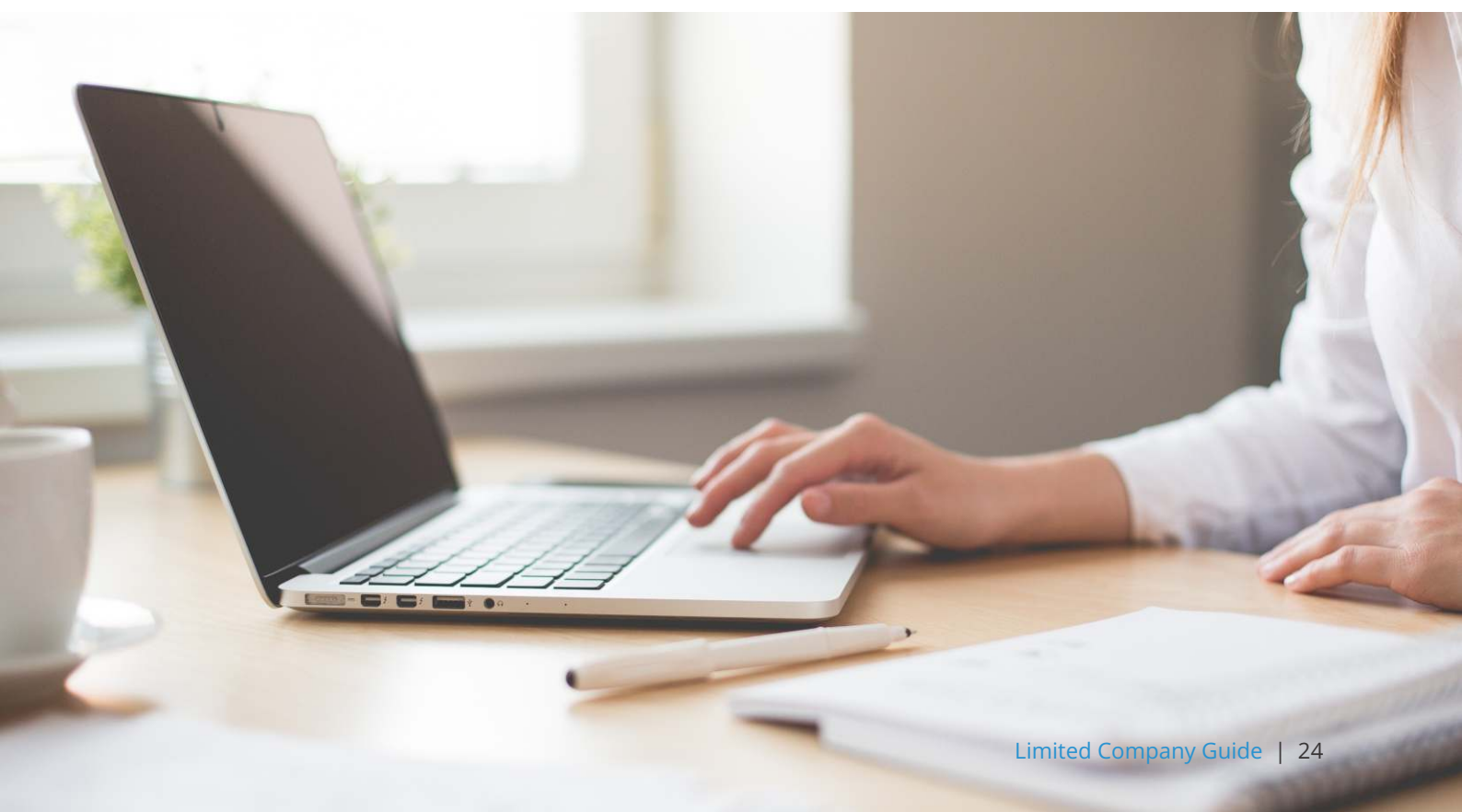
How Profits are Calculated

In order to calculate the profits of a limited company, you must take business turnover and incurred expenses of a relevant tax year into consideration. Suppose you have annual revenue of £88,000, annual travel & other expenses of £3,000, annual pension contribution of £4,000 and annual gross salaries of £12,500.

In order to calculate profits before tax, you need to deduct all the business expenses from the Annual turnover of £88,000 as shown below –

Annual Turnover		£88,000.00
Less – Business expenses		
Annual travel –	£3,000.00	
Pension contribution –	£4,000.00	
Gross salaries –	£12,500.00	
Employers NIC	£533.78	<u>£20,033.78</u>
<u>Profit before tax</u>		£67,966.22
<u>Corporation tax</u>		£12,913.54

Now it's a company decision whether to retain the profit or to distribute it as dividends.



How Taxes are Calculated

Tax on Profits:

- The company is liable to pay corporation tax on the profits earned
- Employees are subject to PAYE and NI

How much Limited Company Tax do I have to pay?

When you set up a limited company, your personal and business finances are kept entirely separate (unlike the sole trader). Unlike life as a salaried employee, you are now responsible for overseeing your obligations, by registering to pay tax on your company income, and ensuring that any liabilities are paid to HMRC on time.

Do I need to pay Corporation Tax?

All limited companies must pay Corporation Tax on their profits, and one of the first things you will do as a new company owner is to register your new company to pay Corporation Tax.

Each year, your company must complete its company corporation tax return (CT600).

You must also pay any Corporation Tax owed within 9 months and 1 day of your company's year end, which is typically the end of the month of the anniversary of when the company was formed.

Corporation tax is currently at the rate of 19% (from 1st April 2017) but is expected to decrease to 17% from 1st April 2020. For years that span the change profits pay the different rates pro rata over time.

Do I need to pay PAYE/National Insurance Contributions?

If you and any employees receive a salary, then income tax and National Insurance Contributions (NICs) are deducted at source and paid to HMRC on a monthly or quarterly basis. This other initial task you (or your accountant) will have to set up within your company - payroll.

Even if you don't pay any salaries which breach the lower threshold for tax or NICs, you must still notify HMRC that no tax is due for that period (this is a simple process).

HMRC can be a little strict on the monthly required payroll filings (RTI's). For late monthly submissions, the penalties can start from just £100, so ensure you're using reputable software to make the submissions, or that your Accountant is doing this for you as part of their services.

If your company provides to you a benefit in kind (such as health insurance or a gym membership), your company would need to pay to HMRC Class 1A NIC each year and make a submission through a P11d filing. The rate of Class 1A NIC is 13.8%. This would be an expense of your Limited company.

Personally, this would affect you via your personal tax return, in which 20% tax may be due on the benefit if all of your personal tax allowance has been used up (and your salary income is in the basic rate tax band). It can still be tax efficient to have benefits in kind through your company, as you would otherwise be paying for these personally.

Personal Tax - Payments on Account

Personal tax can be a little daunting – however, most Accountants, should you choose to appoint, will be able to provide personal tax planning for you so you don't end up with an unexpected tax bill. Always let your Accountant know if you are receiving income from a source other than your Limited company, and they can incorporate this into your personal tax planning.

Most directors will need to complete and submit a personal self-assessment tax return. Individuals in receipt of dividends in excess of £10,000 have to inform HMRC and complete a personal tax return. Individual in receipt of less amounts of taxable dividend income i.e. between £2,000 and £10,000 per annum still need to inform HMRC but can ask to pay the tax due on HMRC assessment instead of completing a full personal self-assessment tax return.

You may also need to make 'Payments on Account' towards the following tax year, if your tax bill is over £1,000 and you haven't paid more than 80% of all the tax you owed directly, i.e. through your tax code on your PAYE salary. Based on your return for the tax year ending 5th April 2020, there would be payments on account due 31st January 2021 and 31st July 2021 towards your 2021 tax bill.

Bear in mind that this bill would need to be paid personally – if you have a Limited company, you should not make the payments from the company to HMRC.

Capital Gains Tax

You may also be liable to Capital Gains Tax on any assets you have disposed of during the tax year (such as shares, investments, or property).

If you sell your own company and have owned the shares for at least 12 months, then you may be eligible to pay Entrepreneurs' Relief on the proceeds – at a flat rate of 10%.

Conclusion

A Limited Company is the most popular and easy to manage business entity type. Over the years it has matured, and it is now hard to think how anyone can do business and protect their personal risk without doing business via a Limited company. If you wish to protect your assets or want to raise money or exit easily then the Limited company route has all the flexibility. Without doubt this is the most popular choice of trading entity for most businesses.

DNS

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