

5 important things you need to know when you decide to form a Limited Company.

There are lots of reasons why people decide to trade through a Limited Company and despite what people may think, it's not always about tax.

Some people trade through a Limited Company for liability reasons, to help keep their business and personal finances completely separate, some because their ideal client prefers (or even insists on) Limited Company suppliers and yes, okay, some people do it to be more tax efficient.

Lots of first-time directors set up their Limited Company for one of the reasons above. It only costs £12 to do this via Companies House and is a fairly simple process. But, then what?

There's quite a bit of admin and compliance that goes along with being a director of a Limited Company.

Here's what you need to know about what you need to do next.

1. You have to have a business bank account.

It's a legal requirement to have a bank account in your Limited company name, so this isn't a choice. You have to keep your business affairs separate.

2. How will you pay yourself?

You can't just take money out of your Limited Company bank account and call it "drawings". Drawings are for sole traders.

Remember, you as an individual and the Limited Company are separate legal entities.

If you plan to pay yourself a director's salary, you must set up a PAYE scheme with HMRC.

You may also wish to pay yourself dividends. You can do this but you have to keep the relevant paperwork, including Board minutes and dividend vouchers. Dividends can only be paid out if you have distributable profits.

Also remember, Corporation Tax is charged on profits before dividends are paid out so although the basic tax rate for dividends is 7.5% (correct rate at August 2020), you will have already paid Corporation Tax on this.

You can borrow money from and lend money to your Limited Company. This is called a Director's Loan Account and there are rules around how you can do this too (including incurring interest, so be careful!)

I highly recommend using accounting software if you decide to trade through a Limited Company.

I also recommend finding an accountant from the start. Find one who you trust and is a good fit for your business to help you navigate all the necessary tax and compliance rules for a Limited Company. Most accountants will help you with set up too.



3. Filing your annual Confirmation Statement and making other changes.

Every year on the anniversary of set up, you need to confirm that nothing has changed and everything is up to date or update it.

If you make any changes within your company - this could be a new director, a change of address, a name change, additional shares or share transfers, you must complete the relevant form; most can be done online and you will find them on the Companies House website.

4. Accounts and Corporation Tax

Keeping records, preparing year end accounts and filing and paying Corporation Tax.

You must keep good accounting records for your Limited Company and the best way is by using accounting software. You must keep your records up to date and I recommend monthly (or at least, quarterly) reconciliations to keep on top of everything.

Your company accounts must be filed with Companies House within 9 months of the financial year end and these are then available publicly delete words repetition on the Companies House website.

Your Corporation Tax return must be filed with HMRC. It isn't due until 12 months after the year end BUT your Corporation Tax must be paid 9 months and 1 day after the financial year ends.

5. Self-Assessment

You will probably still need to file a Self-Assessment too, as a director.

On your Self-Assessment you will need to report your salary as an employee of the Limited Company, as well as any dividends received from the company within the tax year.

Obviously, there's a lot more to being a director of a Limited Company. This article isn't intended to be an "everything you need to know". It's a starting point. Speak to an accountant about your own specific circumstances.

The BEST approach is to speak to an accountant BEFORE you set the Limited Company up.