#### UK TAX ADVISERS LIMITED

#### Guide to running a Limited Company

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# 1. How they work

**Limited Company**

A limited company takes a day or two to be formed. It is a separate legal entity and is controlled by its directors and owed by its shareholders.

Once formed you are then able to issue invoices to customers. You will need to open a business bank account to receive payments. You then decide how much to pay yourself as director and shareholder, which is made up of a combination of salary and dividends.

The company needs to register with HM Revenue & Customs for corporation tax and PAYE. It is often beneficial to also voluntarily register for VAT and join the flat rate scheme (although the benefit has been significantly trimmed back from April 2017).

The limited company's contract can either be with the agency or directly with the end client.

Your limited company can pay expenses direct to suppliers and reimburse you as an employee. The most common tax-free expenses are: - travel and subsistence, computer hardware and software, training, professional subscriptions, insurance, business telephone and accountancy fees. Most other business related expenses are also allowed.

Further tax savings can be achieved through control of paying income to avoid personal higher rate tax, especially during periods of no work, using a spouse’s tax allowances and the possibility of a 10% tax rate on part of the contract income when the company is no longer needed.

We suggest using our registered office to ensure all filing deadlines are met.

**Summary**

* A day or two to form a limited company
* Open a company bank account
* Register with HM Revenue & Customs
* Consider VAT & flat rate scheme (although savings trimmed back from April 2017)
* Consider tax planning with salary & dividends
* Claim business expenses
* Take home more pay (usually 84%)
* Cash flow advantage as corporation tax due 9 months after year end

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**2. Limited Company or Umbrella Company?**

**What is the point of a limited company?**

* Significantly more take home pay (typically 84% of contract value) compared to an umbrella company (67%)
* Similar accountancy costs to using an umbrella company but with much higher benefits.
* Cash flow advantage – tax is due 9 months after your year-end.

**What is the point of an umbrella company?**

* Tax relief is available on certain expenses (mainly travel) so a tax saving can be achieved compared to being employed directly by the agency where full PAYE is deducted.
* Only worthwhile using an umbrella company if the tax relief on expenses is more than the umbrella company administration fees.
* There is less admin than running a limited company, as you don’t have to operate a company bank account and meet annual filing deadlines.

**How does an Umbrella Company work?**

You become an employee of the umbrella company. You submit time sheets to the umbrella, who then invoice the agency or end client for the work that you have done. You are then be paid by the umbrella company who deduct PAYE and their administration fee. You are allowed to submit certain expenses to the umbrella company who will claim tax relief (usually travel expenses). You'll typically take home around 67% of your contract by working through an umbrella company.

**Summary**

|  |  |
| --- | --- |
| Limited Company |  |
| **Advantages** | Disadvantages |
| Overall, most tax efficient way of working. | Need to run a business bank account. |
| Benefit from VAT flat rate scheme savings. | Not ideal for very short-term contracts. |
| Claim higher expenses than umbrella co. | Need to meet tax & accounts filing deadlines. |
| Running your own business is not difficult with our help. | Need to wait until agency pays you. |
| Even if caught by IR35, a Ltd co can be better than umbrella company. | IR35 tax avoidance can apply so some uncertainty if borderline. |
| Cash-flow advantage as tax due 9 months after the year-end. |  |
|  |  |
| Umbrella Company |  |
| Advantages | Disadvantages |
| Easy to use – simply enter timesheet and expense details and wait to be paid. | Tax relief limited usually just to travel so more tax payable compared to your own Ltd company option. |
| All tax and NIC deducted so no further taxes to pay. | Tax relief on expenses may not cover the umbrella company fee. |
| Some umbrella companies pay within 7 days of you submitting timesheets. | Some umbrella companies pay you after they have been paid by agency. |
| Tax relief on certain expenses (travel). | PAYE deducted monthly |

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**3. Records to keep**

We will supply an Excel or Open Office spreadsheet to help you keep suitable records. Open Office software is a free download. This can then be emailed back to us so VAT returns can be prepared quarterly and then the annual accounts. If you have online banking you can download the transactions, which saves administration time.

If a more sophisticated accounting system is required then we can recommend a suitable commercial product (usually QuickBooks or Sage). We have also negotiated a 40% discount on the cost of Free agent, an online accounting package, which we will pass on to you.

Alternatively, you can post or email copies of your income and expenses and we will prepare the accounts and VAT returns.

You will need to keep the invoices or receipts issued by suppliers, should HM Revenue & Customs request them during an enquiry for 6 years.

1. **Salary & dividends**

The most tax efficient way of drawing funds from the limited company is by paying a low salary and the balance as dividends. We will set the appropriate level of salary for you at the start of the tax year depending on your personal circumstances (e.g. pension contributions) and provide the dividend paperwork. This leaves you to withdraw the funds from your business after you have put aside your VAT and corporation tax.

1. **How are the tax liabilities calculated?**

The limited company has a corporation tax liability on its profits and you may have a personal higher rate tax liability on dividends. We will let you know what the thresholds are so you can avoid higher rate tax if you wish by limiting the amount of dividends you draw from the company.

We give you a “bottom line” tax % to put aside. If you put aside all the VAT you collect, then a % of your remaining daily rate, you will have enough to pay HMRC as and when.

**6. VAT**

You can voluntarily register for VAT and take advantage of any potential VAT flat rate scheme savings prior to 31 March 2017. From 1 April 2017 the flat rate scheme savings have been trimmed back and we can confirm if worth VAT registering or not.

The easiest way to understand how VAT works is to think of your company as a VAT collector working on behalf of HM Revenue & Customs.

You charge your customers 20% VAT on top of your invoices and put that aside ready to pay to HM Revenue & Customs quarterly. You then look at all the expenses you have paid over the same period and deduct any VAT incurred and pay over the balance to HM Revenue & Customs.

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1. **Expenses to claim: -**

Most business related expenses are allowable. Here are the more common ones: -

* Travel expenses – train fares, parking etc.
* Business mileage (45p for first 10,000 then 25p thereafter). NB there is a restriction when you work at a site for over 2 years as that then becomes your permanent workplace and travel is not allowed there.
* Subsistence – food costs while at or travelling to work.
* Computer hardware and software – these are considered capital expenses but will get 100% tax relief (subject to certain limits).
* Training – courses etc.
* Professional subscriptions,
* Insurance – professional indemnity, public liability & key person. NB, private medical insurance is a taxable benefit in kind on the employee so not worth putting through the company.
* Company pension contributions
* Business telephone. NB it is important to ensure the contract is in the company name where all the costs are allowed, including line rental & free minutes. If is contract in your personal name then only business calls can be claimed and not the rental/free minutes.
* Broadband – if in company name then all costs can be claimed. If at home and in personal name then do not claim unless 100% business use.
* Accountancy fees.
* Advertising costs.
* Printing, postage & stationary.
* Entertaining - can be paid by the company but there is no corporation tax relief.
* Use of home as office – we will calculate a proportion of home expenses to claim.

It is not possible to list all the business expenses claimable but the idea is that if there is a business element then the cost will generally be tax allowable.

1. **Deadlines to submit forms**
   * Statutory accounts - 9 months after year-end.
   * Corporation tax return - 12 months after year-end.
   * Payroll - Monthly
   * Personal tax return - 31st January following the tax year.

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**9. How much does it cost?**

Initial set up a limited company

A company bank account is needed to receive your income. We recommend any high street bank.

**Ongoing costs**

Monthly fees are then £70.84 + VAT **= £85**. This includes everything you will need for the running of your company: -

* Quarterly bookkeeping for VAT returns (if applicable).
* Annual statutory accounts & abbreviated accounts to go to Companies House.
* Corporation tax return.
* PAYE annual return & P11d benefits in kind form (if applicable).
* Personal tax return (additional charge may apply if more complex e.g. if you have other rental income).
* Annual companies house return (we will pay the £15 annual charge on your behalf).

If your contract comes to an end and there is no work, then there is no monthly cost during that period of inactivity (our fees still apply during normal holiday periods while you are contracting). You can keep the company dormant for as long as you like and there is just a £50 + VAT = £60 annual charge for us to submit dormant accounts and Nil returns. Other charges may apply if you require personal tax returns while you company is dormant.

If there is any work required outside of our fixed fee arrangement, then we will give you a quote and get your agreement to undertake the work (e.g. additional accounting work for VISA applications)

**10. What if I don’t need the company anymore?**

You can close the company at any time and we will arrange that for you at no additional costs.

If you need a limited company again then you need to go through the set up procedure and open a new business bank account. It is therefore a good idea to keep the company dormant for some time and only close it down if you are certain it is no longer needed.

**11. What is IR35 anti avoidance?**

The Government introduced anti-avoidance legislation in 2000 to reduce the tax advantages by those operating through a limited company where they consider you to be no more than an ordinary employee of the end client. To be outside of IR35 you need to operate the limited company with the same level of risk, responsibility, liability and control that other directors accept when they manage their own businesses.

What does IR35 mean for you? If your contract and working practices give the impression that you are an employee of the end client, then you will have to pay full tax and National Insurance, but with a 5% limit of your turnover to cover expenses.

As part of the service, we provide an opinion on whether you are within or outside IR35 and there is an online HMRC tool to determine whether you are in or outside.