

All Paul Limited

Chartered Certified Accountants

Helping smaller businesses and their owners manage their accounting, business and taxation

This brochure sets out the main factors to consider when thinking about operating your business as a limited company. Please ask for more details.

Benefits of a limited company

If you are a small business and trade as a sole trader or partnership, then you are paying more tax than you need to and are also leaving yourself financially exposed.

A business earning £30,000 in profits can save £1,341 pa* by operating as a limited company.

* Based on tax rates and legislation for 2019-20.

Contact Paul Clifton for further details and to find out more on how you can save more tax.

Read on to find out what you can do to reduce both your tax liability and your financial exposure.

Why do I need to be a limited company?

The main reason smaller businesses trade as a limited company is to reduce their tax bill. The second main reason people register their business as a limited company is that they benefit from limited liability. Setting up a limited company not only means that you benefit from limited liability but also that the business is recognised as a separate legal entity, separate from its owners and managers. The company has its own responsibilities, obligations, profits, losses and debts.

A company is operated and controlled by its Directors and owned by its Shareholders. It can also have employees. This means that shareholders' financial liability is limited to the sum of the shares they own. E.g. if a shareholder owns 1 share of £1, they must contribute £1 to the debts of the company by paying for their share. If the company closes (i.e. it is 'wound up') and has outstanding debts to creditors, the shareholders do not have to contribute further to the debts of the company (subject to any agreements with third parties); therefore their liability is 'limited'. If the company closes with no outstanding debts then the accumulated net assets can easily be returned tax efficiently to the shareholders.

Why haven't I formed a company?

Your existing accountant may not be proactive and may just process your accounts and Tax Return each year without trying to save you money and protect you financially. Most self-employed people are also very busy making it difficult to stand back and gain perspective on their business. But should you make the time, this will save your hard-earned money and lead to a more profitable business. Instead of being self-employed, you can soon reap the benefits of operating as a limited company.

Some frequently asked questions (FAQs)

Is it expensive to form a limited company?

No. It's very cheap and can be done easily and quickly. You can form a company on the internet yourself, but it is sensible to ensure that the structure is correctly set up and that the conversion from sole trader or partnership is carried out correctly. We can fully set you up as a limited company from £150.

Is operating a limited company complicated?

It is true that there are lots of rules and regulations that govern limited companies. However, these need not affect you on a day-to-day basis. The regulatory matters can normally be addressed once a year when your annual Financial Statements are prepared by your accountant.

Aren't limited companies for proper businesses, not just me as a sole trader?

No. It is true that in the nineteenth century, when limited companies were first made available, that big business used them. Nowadays, it's very common for 'one-man companies' to be formed. They save their owner tax and protect them financially.

Understanding limited companies

A limited company in the United Kingdom is a business whose liability is limited by shares. A private limited company (Ltd) is the most common form of company. A limited company can be registered in England and Wales, Scotland or Northern Ireland. The registration of companies in the UK is done through Companies House.

By using a limited company structure, your company and personal finances are kept separate, unlike with a sole trader or partnership structure.

The main benefits

One of the two main benefits of trading as a limited company is that a limited company is a separate legal entity that exists under the law. Therefore, the owners or shareholders of a limited company are protected from the liabilities of the business. As a result, the personal assets of the company owners cannot be touched by creditors of the company. However, when a limited company is small, some creditors, e.g. banks, may require personal guarantees from the principal owners before extending credit. The legal protection afforded to the owners of a limited company can therefore be very useful. A limited company has substantially all of the same legal rights of an individual and is responsible for its own debts. It must also file tax returns and pay taxes on income it derives from its operations.

The second main benefit of trading as a limited company is the lower rate of overall taxation that has to be paid. Typically, a sole trader / partner will have to pay an extra 9% of their profits in National Insurance. A person operating the same business through a limited company can obtain the same state pension and social security benefits, but without the taxation costs. A business earning profits of £30,000 can save National Insurance by operating as a limited company, but must pay 6% dividend tax instead.

A limited company must register its proposed name, though this is normally just a formality. A limited company must also adopt and file a 'rule book' known as its Memorandum and Articles of Association, which sets out the rights and obligations to its shareholders and directors. These documents tend to be based on standard text and are just a legal requirement. The costs of forming a limited company can be more than covered by the tax saved after only a few months of trading.

Converting your business to a limited company - the main differences

If you're a sole trader or partnership, there's no better time to convert to a limited company.

Limited company	Sole trader / partnership
Profits up to £300,000 are taxed at 20%	Profits are taxed at 20% up to £50,000 and then at 40% up to £150,000 with the excess at 45%
Tax payable on £15,000 of profits = £477	Tax payable on £15,000 of profits = £1,229
Tax payable on £30,000 of profits = £4,238	Tax payable on £25,000 of profits = £5,579
Tax payable on £40,000 of profits = £6,746	Tax payable on £40,000 of profits = £8,479
If a director / shareholder draws a salary over £8,628 pa, then employee's national insurance will be payable at 12% and employer's national insurance at 13.8%. However, in practice a basic salary of £8,628 pa is paid with dividends being taken to withdraw the balance of annual profits.	A partner / sole trader will pay Class 2 national insurance of £2.95 pw and Class 4 national insurance at 9% on profits between £8,628 and £50,000 and 2% on profits over £50,000.
Shares in a company are generally transferable, therefore ownership, or even part ownership, may change but the business continues.	The business is the sole trader or partnership and therefore requires the individuals to operate.
Corporation tax is payable 9 months after the year-end. Tax may be payable on a director's salary paid via PAYE. However, best tax practice is to draw a small salary with no tax or national insurance due.	For a sole trader or partnership, tax is generally paid by instalments on the 31 January in the tax year and then 31 July following the tax year. Tax for 2018/19 is payable: - first payment on account on 31 January 2019, second payment on account on 31 July 2019, with any final balance due on 31 January 2020.
Incorporation does not guarantee reliability or respectability but gives the impression of a well-run organisation. Personally, there may be prestige attached to a directorship.	The unincorporated business does not carry the same prestige.
A company can be formed with one or more shareholders. A single person can form a company with themselves as the sole shareholder and director. A limited company is owned by its shareholders.	The individual that owns and runs a business is a sole trader or the individuals are the partners in the case of a partnership.
Companies are ruled by the Companies Act 2006. A company is legally required to: <ul style="list-style-type: none"> • Keep accounting records • Produce annual accounts • File simple accounts and an annual return • Keep statutory registers. 	Sole traders and partnerships are not required by law to prepare or file annual accounts. In practice an income & expenditure statement is prepared to help with the completion of the HM Revenue & Customs Tax Return. They must still maintain proper accounting records.

Annual requirements

A limited company must file an annual tax return with HM Revenue & Customs. It can file a simple Balance Sheet of its assets and liabilities with Companies House. There is therefore no requirement to disclose your profits. It must also file an annual return to Companies House which is a snapshot of general information about a company e.g. its directors and shareholders.

What details do I need to form a limited company?

A company name	A Registered Office address
The name must not be the same or too similar to a company that already exists	This address will be used for statutory mail from Companies House and H M Revenue & Customs. Your registered office is required to be in England & Wales, Scotland or Northern Ireland. It can be your home address
Director's details	Shareholders' details
First name Last name Date of birth Nationality Occupation Residential address Country of residence	First name Last name Residential address Number of shares

What is included when you form a limited company for me?

Electronic Certificate of Incorporation	Companies House filing fee
Memorandum and Articles Association	Electronic Share Certificates
Company Register	Letter with other tax matters to review

Contact Paul Clifton for further details on how we can cut the amount of tax you pay.



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