



Limited Company Guidance

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A guide to running your company

Drawing money from my company

What makes up my pay from my company?

Generally, contractors take 3 different types of payments from their company:

1. Salary

As an employee of your company you can draw a salary. If you are the director of the company you can choose how much salary to take.

2. Expenses

If you personally incur expenses while working, you can claim these expenses back from your company.

3. Dividends

As a shareholder of your company, you can take dividends from the company after all taxes have been provided for.

What's the best way to pay myself?

Monthly - we recommend that your client pays you monthly into your company bank account. You can then calculate how much salary, expenses and dividends you can draw and then take these in 3 separately labelled transfers.

What's the most tax efficient amount to pay myself?

We recommend that your gross pay for the whole tax year (6 April to 5 April the following year) should be at, or just below, the high income threshold (£43,875 for 2009/2010). Otherwise above this threshold, you will incur extra tax at a rate of 25% that you will be liable for.

Company expenses

What expenses can I claim?

Whether an expense can be claimed or not depends on whether the expense meets HMRC's criteria for a claimable expense. The criteria is that the expense must be incurred "**wholly and exclusively**" in the running of your business. If there is any personal benefit in incurring the expense, then it cannot be claimed. The most common types of expenses are:

- › Travel
- › Mobile phone
- › Telephone
- › Business internet connection
- › Equipment
- › Computer hardware
- › Computer software
- › Postage
- › Stationery
- › Subscription/Professional Fees

What about my receipts?

You should keep all your receipts for your expenses. HMRC can, at anytime, request to see proof of these expenses.

What is the difference between a Claimable and a Reimbursable Expense?

A claimable expense is an expense where you pay for the expense from your personal funds and then claim it back from your company as one of the monthly payments to yourself.

A reimbursable expense is an expense where you pay for the expense from your personal funds, but which your client reimburses you for under the terms of your contract.

What is the effect of claiming expenses?

Expenses reduce the amount of corporation tax your company has to pay on its profits. For example, if you incur an expense of £100 and the current rate of corporation tax is 21%, your company's corporation tax decreases by £21 (£100 x 21%)

Director's Loans

What is a director's Loan?

A director's loan is the withdrawal of funds from the company by the director, under an arms-length arrangement, with the intention of repayment.

Can I take a Director's Loan?

Although we discourage loan accounts, you can take a loan as a director of the company.



What are the implications if I do take one?

Before taking a loan from the company, you should be aware of the following implications:

- › The loan must be repaid to the company within 9 months of the company's year end date (for example, if a loan is drawn on 25 March 2008, and the company has a year end date of 30 April 2008, the loan must be repaid by 30 January 2009).
- › If a loan is drawn in excess of £5,000, you must pay interest on a monthly basis to the company from your personal account, at the rate set by HMRC (this rate is currently 4.75%pa). Interest is payable on the full loan value, not just the portion in excess of £5,000.

NOTE: If you do not make the interest payments to the company, the interest not paid is considered to be a 'taxable benefit', and is subject to 12.8% tax in the P11d return, as well as being subject to personal tax in your self assessment return.

When and how do I have to repay it?

As stated above, the loan must be repaid within 9 months of your company's year end date (i.e. at the same time that the corporation tax is due). It is repaid by you simply paying money back into the business bank account.

What if I don't repay the loan?

If the loan is not repaid within the 9 month period, corporation's tax will be charged on the value of the loan at a rate of 25%. This tax is only recoverable once the loan is repaid. The date of repayment of the loan must be known before the corporation's tax return can be processed and lodged (so additional taxes can be calculated if necessary).

IMPORTANT:

Sometimes a director's loan needs to be created when preparing annual accounts. If you have drawn dividends from your company in excess of the available retained profits, the company will show a retained loss position.

This is illegal where the only reason for the loss is the excess drawing of dividends, and can result in the company being audited. As such, when the accounts are prepared, the excess dividends drawn will be re-classified as a directors loan to rectify the situation.

If the loan created is over £5,000, interest will be accrued in the accounts and will be due and payable by you to the company, together with the loan itself.

As such, we always recommend that you seek our advice if you are unsure about taking a loan from the company. It is important that you understand the implications of taking a loan as well as the impact upon you and the company where you draw excess dividends.

Accounting and Taxes

What am I responsible for?

As a company director you are responsible for ensuring that all the necessary financial statements, tax returns and tax payments required by law are submitted and paid to the relevant authorities on time. The 2 authorities that regulate your company are Her Majesty's Revenue & Customs (HMRC) and Companies House (CH).

- › **HMRC:** is who you pay all your taxes and national insurance to and where you submit your annual financial statements and tax returns.
- › **Companies House:** keeps a register of all the companies incorporated in the UK. They also require annual financial statements to be submitted to them.

What does HMRC and Companies House expect of me?

Below are some common questions and answers to help you understand your responsibilities with regard to the different taxes.

PAYE & National Insurance / Tax Year End Returns (P35/P14/P11d)

What is PAYE & NI?

Pay As You Earn (PAYE) & National Insurance (NI) are taxes levied on your salary as an employee of your company. Each of these has different tax bands. See <http://www.hmrc.gov.uk/rates/it.htm> for more details.

Do I have to pay PAYE & NI?

Yes, but only if you draw a salary from your company above the tax free threshold for that year. Our accountants will set the most tax efficient salary amount for you and tell you how much needs to be paid.

When does it have to be paid?

If your company operates a quarterly PAYE scheme, it needs to be paid every 3 months (see the table on page 5). If your company operates an annual PAYE scheme, it only needs to be paid by 19 April each year.

When do I reconcile my PAYE/NI for the tax year – P35/P14?

Your accountant will review your PAYE/NI for the whole year in April each year to make sure you don't pay unnecessary tax. He/she will make any necessary adjustments on your P35 & P14 returns, which are due by 19 May.

When is this P35 return due by?

19 May each year.

What happens if I fail to submit the P35 return?

HMRC will charge you penalties at £100 per month for each month that it is late.



What happens if I fail to make my PAYE & NI payment?

HMRC will charge you interest on late payments.

What else can I do to reduce my PAYE & NI?

Pensions are a very good, tax effective way of reducing your PAYE & NI. Please contact us for more info.

More info:

<http://www.hmrc.gov.uk/pay/intro-basics.htm>

<http://www.sablewealth.com/pensions.html>

Corporation Tax / Corporation Tax Returns (CT600)

What is corporation Tax?

Corporation tax is the tax charged on the profits of your company.

Do I have to pay corporation Tax?

Yes, you have to pay corporation tax on company profits.

How much do I have to pay?

Your accountant will prepare your company's financial statements and determine how much corporation tax you need to pay.

When is the corporation tax payment due?

The payment is due 9 months from your company's year end date.

When is my corporation tax return due?

The corporation tax return is due 12 months after your company's Year End date.

What happens if I fail to submit my return?

HMRC will charge your company penalties at £100 per return.

What happens if I fail to make the corporation tax payment?

HMRC will charge you interest on late payments of corporation tax.

More info:

<http://www.hmrc.gov.uk/ctsa/index.htm>

Company Accounts

What makes up company accounts?

Company accounts include an Income Statement, Balance Sheet and Director's Report.

When are my company accounts due?

The accounts need to be filed at HMRC and Companies House as follows:

- › HMRC: Due 12 months from your company's Year End date
- › Companies House: Due 9 months from your company's Year End date

What happens if my accounts are not submitted on time?

HMRC and Companies House will charge penalties on overdue accounts as follows:

- › HMRC: £100 to £1000
- › Companies House:

How late are the accounts delivered	Penalty – Private Company	Penalty – PLC
Not more than one month	£ 150	£750
More than one month but not more than three months	£375	£1500
More than three months but not more than six months	£750	£3000
More than six months	£1500	£7500

In addition, where there was a failure to comply with filing requirements in relation to the previous financial year (and that the previous financial year had begun on or after 6th April 2008), the penalty will be double that shown in the table.

More info:

<http://www.companieshouse.gov.uk/about/gbhtml/gba1.shtml>

http://www.companieshouse.gov.uk/companiesAct/ca_lateFilingPenalties.shtml

VAT / VAT Returns

What is VAT?

Value Added Tax (VAT) is a tax levied on goods and services. You can be charged VAT if you are receiving a good or a service and you could be charging VAT if you are providing a good or a service.

Do I have to charge VAT?

Only if you are VAT registered. You cannot charge VAT if you are not VAT registered.

Do I have to register for VAT?

You must register for VAT if your company's turnover exceeds (or is expected to exceed) £68,000 in any 12 month period.

If I am VAT registered, how much do I charge?

Current Standard Rate of VAT is 17.5%.

Can I claim VAT back?

Yes, but only if you are registered under the normal VAT scheme, not the Flat Rate Vat scheme (see below).

Is VAT calculated on Net or Gross sales?

Net sales. In other words, if you charge your services out at £100/hour and you charge for 10 hours, your net sale is £1,000 (£100 x 10). VAT is then calculated on £1,000 (£1,000 x 17.5% = £175, so your full invoice amount to your client is £1,000 + £175 = £1,175).



What is Flat Rate VAT (FRV)?

Flat Rate VAT means you charge 17.5% VAT on your invoices, but pay VAT to HMRC at a flat rate, which is based on your company's principal activity. You cannot claim VAT back under this scheme, but any difference between the amount of VAT collected from your clients and the amount payable to HMRC is income to your company.

What is the benefit of using the Flat Rate VAT scheme?

The illustration below shows how your income can increase by £1,462 by simply being FRV registered. In the example, the company performs management consulting services and has a Flat Rate of 12.5% per HMRC's guidelines.

	Normal VAT at 17.5%	Flat Rate VAT at 12.5%
Invoice Amount:	£1,000	£1,000
VAT Charged at 17.5%:	£175	£175
Amount Received:	£1,175	£1,175
VAT paid to HMRC:	£175	£146.88 (12.5% x £1,175)
Benefit to you:	Nil	£28.12 (£175 - £146.88)

In this example, you could save £28.12/week. Over a year that is a saving of £1,462.24!

Can I use the Flat Rate VAT scheme?

Yes, provided your annual income is less than £150,000. Your Accountant can tell you what your Flat Rate percentage is.

When is my VAT payment and return due?

The payment and return are due 1 month after the quarter has ended. For example:

Quarters	Due date for Return AND Payment
1 Jan to 31 Mar	30 Apr
1 Apr to 30 Jun	31 Jul
1 Jul to 30 Sep	31 Oct
1 Oct to 31 Dec	31 Jan

What happens if I fail to submit my return?

HMRC will charge you penalties.

What happens if I fail to make a VAT payment?

HMRC will charge interest and surcharges on late payments of VAT.

More info:

<http://www.hmrc.gov.uk/VAT/VAT-introduction.htm>
<http://www.hmrc.gov.uk/vat/account-flat.htm>

Self Assessment Personal Tax Return (SA100)

Do I need to submit a Personal Tax return?

You are required to submit a Personal Tax Return for any one of the following reasons (among others):

- › You are the director of a limited company
- › You are self employed
- › You are a higher rate tax payer (i.e. you earn above £43,875)
- › You have rental income
- › You have investment income
- › You have income that has not been taxed at source
- › HMRC may deem it fit that you complete one

What goes into a Personal Tax Return?

All income you have received in your personal capacity including salary, dividends and expenses you have received from your limited company.

To what period does the Personal Tax return relate?

6 April to 5 April the following year.

When is my Personal Tax payment and return due by?

The due date for the Personal Tax Return is as follows:

Paper submission: 31 October
 Online submission: 31 January (the following year)
 The Personal Tax payment is due on 31 January the following year.

What happens if I fail to submit my Personal Tax return?

HMRC will charge you a penalty if £100. However, if you have no liability to tax, this penalty is recoverable.

What happens if I fail to pay my outstanding personal tax?

HMRC will charge you interest on overdue payments.

More info:

<http://www.hmrc.gov.uk/sa/your-tax-return.htm>

Summary Table:

Tax Scheme	Period covered	Name of Return	Return due date	Payment Due date	Why?	Example
PAYE & National Insurance	6 April to 5 April	P35 & P14	19 May each year	Quarterly scheme	19 July 19 October 19 January 19 April	PAYE & NI payments due on: 19 July each year 19 Oct each year 19 Jan each year 19 April each year P35 & P14 returns due on 19 May each year
				Annual scheme	19 April	PAYE & NI payments due on 19 April each year P35 & P14 returns due on 19 May each year
Expenses & Benefits	6 April to 5 April	P11d & P11d(b)	6 July	6 July	These are legislative requirements of the Companies Act 2006	Due 6 July for all UK companies
Corporation Tax	12 months to Accounting Date	CT600	12 months after Accounting Date	9 months after Accounting Date		ABC Limited has an Accounting Date of 31 March 2010; its CT600 is due by 31 March 2011.
Annual Financial Statements (Accounts)	12 months to Accounting Date	Income Statement, Balance Sheet & Directors report	HMRC: 12 months CH: 9 months	n/a		ABC Limited has an Accounting Date of 31 March 2010, it's accounts are due: HMRC: 31 Mar 11 CH: 31 Dec 10
Companies House Return	12 months to Accounting Date	Annual Shuttle Return (ASR)	1 month after Accounting Date	n/a		ABC Limited has an Accounting Date of 31 March 10, it's ASR is due 30 April 10
Value Added Tax	Quarterly (company specific)	VAT Return	1 month after quarter end	1 month after quarter end		ABC Limited has a VAT quarter 1 Jan to 31 Mar; its VAT return and VAT payment is due by 30 Apr.
Self Assessment Personal Tax Return	6 April to 5 April	SA100	Paper: 31 October Online: 31 January	31 January		Joe Bloggs has been a director of ABC Limited since 1 Aug 09, his Self Assessment Personal Tax Return for 6 Apr 09 to 5 Apr 10 is due on 31 Oct 10 if filed by paper or 31 Jan 11 if filed electronically.

1st Contact Accounting Fees and Services

What are 1st Contact's Fees?

Our fees range from £9.95 per month for our basic Registered Office Service (which excludes any accounting work) to our accounting services that start from just £91.25 per month all inclusive.

What's the easiest accounting solution?

We have 2 all inclusive services you can choose from:

- Personalised Quarterly Service.** This service starts from £99.58 per month. You will be given a dedicated accountant to help look after your needs. This service includes a quarterly consultation with your accountant.

- Online Service.** This service starts from £91.25 per month. This is an online only service where your affairs are dealt with by team of individuals headed by an accountant.

How are the fees paid?

Fees are paid by direct debit.

Do I have to sign a contract?

You will be required to sign a letter of engagement with us. This engagement can be terminated at anytime.

Website: www.1stcontact-accounting.com

Contact details

Freecall: 0808 141 1638

Email: accountinginfo@1stcontact.com

Address: 1st Contact, Castlewood House, 77-91 New Oxford Street, London, WC1A 1DG

Web: www.1stcontact-accounting.com