

# STARTING A COMPANY

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## FREQUENTLY ASKED QUESTIONS



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CROWTHER

CHARTERED ACCOUNTANTS & TAX ADVISERS

So you've started a new company, and you have lots of questions to ask. In this booklet, the new business specialists at Haggards Crowther answer the most commonly asked questions.

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## A) Constitution

### 1. What is a limited company?

A limited company is a legal entity, separate from its owners, governed by its constitution, known as the Articles, which engages in business for the benefit of its shareholders.

### 2. What are the company's compliance obligations?

#### Companies House

Financial statements, also known as accounts (See Q6), must be filed with Companies House once a year within 9 months of the end of the reporting period covered by the accounts.

The company must also file a Confirmation Statement and maintain an accurate and up to date register of persons with significant control (PSC). The Confirmation Statement, which gives details of the directors and owners of the company, is filed once a year on the anniversary of incorporation. Any updates to the PSC must be filed within 14 days of the change.

#### HMRC (HM Revenue and Customs – the taxman)

A company pays Corporation Tax on its profits (See Q8) and a tax return reporting the tax due must be filed within 1 year of the year-end of the accounting period. The tax payable is due 9 months and 1 day after the year-end.

### 3. What are my responsibilities as a director?

There are seven general statutory duties of a director. Simply put, they are:

- ④ To act within the bounds of the company's constitution, the Articles;
- ④ To promote the success of the company for its members, also known as shareholders;
- ④ To act independently, and not solely rely on others;
- ④ To exercise reasonable care, skill and diligence;
- ④ To avoid personal conflicts with the company;
- ④ To not accept benefits from a third party being offered due to your position; and



- ④ To declare any interest in a proposed transaction or arrangement.

In addition, the director must consider the interests of creditors and monitor the solvency of the company.

#### **4. Does the company need a company secretary?**

No, a small company no longer requires a secretary.

#### **5. Can my spouse be a part of the company?**

If the circumstances are right, it is quite common for spouses to set up a company together and share ownership. Doing this spreads dividend income (see Q15) across two people, and may reduce tax liabilities.

Care must be taken where a spouse is employed by the company because in some circumstances HMRC will see benefits given to one spouse as taxable on the other.

## **B) Accounts and corporation tax**

### **6. I've heard people say that my accounts will have a balance sheet and a profit and loss. I have no idea what this means.**

The directors are responsible for the preparation and approval of the company's accounts which include the balance sheet and the profit and loss account.

The balance sheet is a snapshot at the date of the accounts of how much the company is worth in terms of what it owns and is owed and what it owes to others.

The profit and loss account, or income statement, shows you how much money the company has made or lost in the year. The profit, or loss, is calculated by deducting the expenses of the company from its total income.

#### **Usually, expenses are split into two main categories:**

- ④ Cost of sales, which are the costs directly linked to turnover, e.g. the cost of an item then resold; and
- ④ Administrative expenses, which are costs linked to the running of the business such as office rent and accounting fees.

### **7. I'm running a small company, and I don't want everyone to know all the details of how we are doing. Do we have to send all the information to Companies House?**

Due to the limitation of liability, a company must file accounts with Companies House so potential suppliers can assess creditworthiness. Under UK reporting rules, accounts include a profit and loss account, balance sheet and supporting notes. However, small and micro companies can take advantage of exemptions, which allow them not to file a profit and loss account, so the profit made is not on the public record if the director does not want it to be.

We can talk you through your options when the time comes to prepare your accounts.

### **8. Does a company get taxed in the same way as individuals who are self-employed?**

A company pays corporation tax. The rules for calculating corporation tax differ

from those used for employees and the self-employed.

A company is taxed on its taxable profit, which differs from the profit in the accounts as adjustments for disallowed items, such as depreciation and entertaining, and tax-deductible items, such as capital investment, are made. The corporation tax rate is currently 19% and is scheduled to decrease to 17% in the next few years.

### **Tax relief on capital investment**

Some items that a company purchases will be regarded as capital items, and as such will not be a part of the company's profit figures. Tax relief on these items is called capital allowances and up to £200,000 of expenditure in the year will get 100% relief (this is known as the Annual Investment Allowance), with any amounts over this amount getting 18% per annum. Cars are treated differently (see Q14).

### **Tax relief for expenditure on research and development, and other eligible costs**

Tax schemes exist to encourage investment by companies in research and development, and film and theatre production. We can provide advice and detail on these schemes where relevant.

## **9. How much money should I set aside to pay the corporation tax?**

How much cash to set aside for corporation tax depends on what your trade is and how well your business is doing. The more profits you make, generally, the more tax you pay. If you expect the company to be profitable from the start, putting aside an amount equivalent to 10%-15% of sales, depending on the type of trade, should cover the liability. Once the first year of trading is complete, we will suggest a more precise percentage based on the company profitability.

We know that cash flow can sometimes be an issue, so assessing the ongoing profitability of the company is vital when making decisions about how much to set aside.

## C) Practical matters

### 10. Can I set up a bank account in the company's name?

Yes, if the company is going to trade, you must do so.

A company can also set up other accounts in its name, such as deposit accounts and savings accounts, and these can be very useful for putting money aside to pay tax.

### 11. I may need to employ some staff. Does the company need to operate a payroll and pay pension contributions?

Yes. If you are employing staff, the company will need to operate a payroll. The only exception is if none of the staff is paid more than the National Insurance threshold of around £120 per week.

The company must register with HMRC, deduct tax from the employee and pay it to HMRC. The company is obliged under the Real Time Information to advise HMRC in advance of paying an employee.

All employees will now be automatically enrolled in a pension scheme unless they opt out. Employees currently pay 3% of their gross salary and the employer 2%, increasing to 5% and 3% respectively from 5 April 2019. The company is obliged to manage the pension contributions on behalf of the employees.

Even if a company does not have employees, the director is paid a modest salary as this ensures tax efficiency and access to the state pension and benefits (see Q15).

### 12. What expenses can I claim through the company?

Expenses that are incurred wholly, exclusively and necessarily for the purposes of the trade are allowed for tax purposes. There are certain expenses, the most common of which is entertaining, which are not allowed for tax purposes and will be added back to the accounting profit to calculate the profits subject to tax.

Subsistence while travelling away from your usual place of work is allowable, but if this includes paying for a customer or supplier, their portion is disallowable. Good records must be kept to ensure the correct amount is allowed.

To ensure tax efficiency, it is essential that items you use in your business, particularly mobile phones, are invoiced to the company and not to you personally.



### **13. I sometimes need to work from home. Can I claim expenses for my electricity and gas through the company?**

It is quite common for business owners to work from home, varying from running your business at home (storing stock, making items to sell) to just completing your admin work. Either way, if you are using your home, you can charge the company for supplying space or a serviced office.

It is important to ensure that it makes sense from a tax perspective to charge a rent under licence and the rent should be set at a level to ensure no profit is derived by the homeowner/renter.

It can be difficult to accurately work out how much you should charge the company, but you can estimate in a variety of ways, such as the size of space used and how often the area is used for business. HMRC has also published guidance, stating that amounts up to £4 a week will not be challenged by them.

### **14. Can I have a company car?**

Yes, but if a company supplies a vehicle to an employee to use privately, the value received by the employee is taxed as a benefit in kind, and as such is taxable on the employee. The tax amount depends on the list price of the vehicle and the emissions it produces. All the costs of servicing and taxing the car can be paid by the company with no further benefit in kind, but any fuel provided for personal journeys will incur tax as a benefit in kind.

The company can claim capital allowances, but at the restricted rate of either 18% or 8% per annum depending on the vehicle.

If you would like to discuss your options with regards to vehicles, please feel free to contact us.

### **15. How do I take money out of the company?**

Directors generally take their income from the company in two ways. Firstly, receiving a salary of £702 per month (see Q11). Secondly, by taking dividends as a shareholder from the company's accumulated profits after tax.

By taking a mixture of the two, you ensure tax efficiency around thresholds. We can suggest a level of monthly dividends to help you with this.

It is vital to remember that when you withdraw the after-tax profits from the company as dividends, you are then subject to income tax on them as an individual. Rates increase from 0% to 38.1% depending on your overall income.

## **16. Can I use the company's money as if it is my own?**

No, you need to remember that the company's money is the company's. Any you use for personal expenses is treated as a loan to you from the company that must be repaid. Any not repaid by the date the company pays its corporation tax (usually 9 months after the company year-end) is subject to a tax charge. If the loan exceeds £10,000, interest must be charged by the company, or the value of the interest that should have been charged is a benefit in kind. The director will pay tax based on the value of interest not charged by the company.

There are repayment options which we can set out for you.

## **17. Do I need to register for VAT?**

A company does not automatically need to register for VAT.

Registration for VAT is compulsory for any business (corporate or otherwise) with a turnover in excess of the VAT registration threshold, currently £85,000. Below this, you can choose to voluntarily register for VAT, which you may do if it is beneficial to your business. Once registered for VAT, you must add VAT to the value of the services or goods you are supplying when you invoice them.

We can set out in detail the options you have.

## **18. What are the bookkeeping options for the company?**

In its simplest form bookkeeping is just keeping a record of the transaction of the company and can be done using a spreadsheet. Improvements in on-line accounting software mean that it is now possible to download bank transactions directly into the company's books. The download is not the complete bookkeeping process as the transactions must be correctly analysed but it does speed things up significantly, although, at some cost for the software.

Some business owners like to do the bookkeeping themselves to either keep costs down or because they wish to understand the detail. Others will employ a bookkeeper to come and work at their office (a good solution if transaction volumes are high and there is a need for day to day liaison with managers and other employees). We can provide the service alongside reviewing and filing VAT returns and management information or as part of a more regular service.

We work with all types of software including but not limited to Xero, Sage, Quickbooks, FreeAgent etc.

### **19. I have heard people talk about Making Tax Digital (MTD). Does this mean that my records must be held digitally?**

HMRC has a longstanding goal to digitise all tax records, with the aim to close tax deficits and make it easier to identify where its income is coming from. To do this, HMRC is rolling out an initiative called MTD. The only tax that so far has a definitive date for being digitised is VAT, with all other digitalisation being pushed back due to HMRC's focus switching to the UK leaving the EU.

VAT is to become digital from 1 April 2019 and at present, it will only apply to those whose turnover is over £85,000. If this doesn't apply to you, you can continue using manual records.

We recommend that any company over or approaching the threshold consider accounting software to keep its records. If you don't have any other record keeping methods at present, discussing the options now will make things easier than when the deadline is looming next April.

### **20. Do I need insurance and professional indemnity insurance?**

Despite the limitation of liability that a company gives the shareholders, it is usually sensible to take out insurance to cover exceptional circumstances. This cover can extend to directors liability as well as the insurance of trade assets.

The company may need Professional Indemnity Insurance to cover work that it does if it is supplying services or product insurance if it is supplying goods.

If you have other questions or would like to speak to one of our new business specialists please call Haggards Crowther on 0207 384 0920.



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