

# LIMITED COMPANIES GUIDE FOR BUSINESS OWNERS



**Congratulations** on your decision to start a limited company! As an experienced accountant, I understand that starting a business can be overwhelming, and there are a lot of legal and financial considerations to take into account. This e-book is designed to provide you with a comprehensive guide to limited companies, including everything you need to know to make informed decisions about your business structure.

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**Chapter 1: What is a Limited Company?** In this chapter, we'll define what a limited company is and the advantages of setting up this type of business structure. We'll also discuss the different types of limited companies and the legal and financial requirements of each.

**Chapter 2: Setting Up a Limited Company** In this chapter, we'll walk you through the process of setting up a limited company, including the legal and financial considerations that need to be taken into account. We'll also discuss the paperwork and documentation required, and the role of Companies House.

**Chapter 3: Directors and Shareholders** In this chapter, we'll discuss the roles of directors and shareholders in a limited company, including their legal responsibilities and duties. We'll also discuss the requirements for appointing and removing directors and shareholders.

**Chapter 4: Financial Management and Taxation** In this chapter, we'll discuss the financial management and taxation requirements for a limited company. We'll cover topics such as financial statements, corporation tax, VAT, and PAYE.

**Chapter 5: Compliance and Regulation** In this chapter, we'll discuss the compliance and regulation requirements for a limited company, including the annual return, statutory accounts, and regulatory bodies such as HMRC and the FCA.

**Chapter 6: Advantages and Disadvantages of Limited Companies** In this chapter, we'll summarize the advantages and disadvantages of setting up a limited company, including factors such as liability, taxation, and cost.

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**Conclusion:** Starting a limited company is an exciting venture, but it can also be overwhelming. We hope that this e-book has provided you with the knowledge and understanding you need to make informed decisions about your business structure. Remember, the key to success is working with experienced professionals who can provide you with the guidance and support you need. If you have any questions, don't hesitate to contact us at TaxLex London.

# WHAT IS A LIMITED COMPANY?

## CHAPTER 1

A limited company is a type of business structure that offers a number of advantages for business owners. Unlike sole traders or partnerships, a limited company is a separate legal entity from its owners. This means that the company can own assets, incur liabilities, and enter into contracts in its own name.

Limited companies are incorporated under the Companies Act 2006 and must be registered with Companies House. They can be registered as a private limited company (Ltd) or a public limited company (PLC), depending on the business's size and scope.

One of the main advantages of setting up a limited company is that it offers limited liability protection to its owners. This means that the shareholders' personal assets are protected if the company runs into financial difficulties, as long as they have not acted fraudulently or unlawfully. In contrast, sole traders and partnerships are personally liable for any debts or liabilities incurred by the business.

Another advantage of a limited company is that it offers greater flexibility in terms of raising capital. Limited companies can issue shares to

raise funds from investors, and the shares can be bought and sold on the stock exchange. This can make it easier for a limited company to secure investment capital, compared to a sole trader or partnership.

In addition, limited companies benefit from a lower tax rate on their profits compared to sole traders or partnerships. Limited companies are subject to corporation tax, which is currently set at 19% on profits up to £50,000 and 25% on profits above this threshold. In contrast, sole traders and partnerships are subject to income tax on their profits, which can be higher.

Overall, setting up a limited company can offer a number of advantages for business owners, including limited liability protection, greater flexibility in raising capital, and a lower tax rate on profits. However, it's important to understand the legal and financial requirements of a limited company, including the need to register with Companies House, file annual accounts and returns, and comply with various regulations.

# SETTING UP A LIMITED COMPANY

## CHAPTER 2

If you've decided that setting up a limited company is the right choice for your business, the next step is to go through the process of incorporating your company. Here's what you need to know.

- 1. Choose a name:** The first step in setting up a limited company is to choose a name for your company. Your company name must be unique and not already registered with Companies House. You should also check that the domain name for your website is available.
- 2. Choose directors and shareholders:** You will need to choose at least one director and one shareholder for your company. The director is responsible for running the company, while the shareholder owns a portion of the company.
- 3. Register your company:** You can register your company online through the Companies House website. You'll need to provide information about your company name, registered address, directors, shareholders, and share capital.
- 4. Create your company's articles of association:** Your company's articles of association are the rules that govern how your company will be run. You can use a template to create your articles of association, or you can hire a solicitor to create them for you.
- 5. Issue shares:** Once your company is registered, you'll need to issue shares to your shareholders. You can issue different types of shares, such as ordinary shares or preference shares.
- 6. Register for corporation tax:** Once your company is registered, you'll need to register for corporation tax with HM Revenue & Customs (HMRC).
- 7. Set up a business bank account:** You'll need to set up a separate business bank account for your company.
- 8. Register for VAT (if necessary):** If your company's turnover is over the VAT threshold, currently £85,000, you'll need to register for VAT with HMRC.
- 9. File annual accounts and returns:** Your company will need to file annual accounts and returns with Companies House and HMRC. You'll also need to keep accurate financial records and file a tax return each year.

Setting up a limited company can be a complex process, but it offers a number of advantages for business owners. By following these steps, you can ensure that your company is set up correctly and that you comply with all legal and financial requirements.

# DIRECTORS AND SHAREHOLDERS

## CHAPTER 3

Once your limited company is incorporated, you'll need to appoint directors and shareholders. Here's what you need to know about these important roles.

### Directors

Directors are responsible for managing the day-to-day operations of the company and making strategic decisions about its future direction. They have a legal duty to act in the best interests of the company and to promote its success. Directors are appointed by the shareholders and can be removed by the shareholders if they are not performing their duties satisfactorily.

There are certain legal requirements that directors must comply with, such as filing annual accounts and returns with Companies House and ensuring that the company complies with all relevant laws and regulations.

### Shareholders

Shareholders are the owners of the company. They own a portion of the company's share capital and have the right to vote on important decisions, such as the appointment of directors,

changes to the articles of association, and the distribution of dividends.

Shareholders can be individuals or other companies, and they can hold different types of shares with different rights and restrictions. For example, preference shares may give the shareholder priority in receiving dividends or in the event of the company being wound up.

One of the advantages of setting up a limited company is that the liability of the shareholders is limited to the amount they have invested in the company. This means that their personal assets are protected if the company runs into financial difficulties.

It's important for directors and shareholders to work together effectively to ensure the success of the company. Regular communication and collaboration can help to build a strong working relationship and ensure that the company is run in the best interests of all stakeholders.

In the next chapter, we'll look at the financial obligations of a limited company, including taxes and annual reporting requirements.

# FINANCIAL MANAGEMENT AND TAXATION

## CHAPTER 4

As a limited company, you'll have certain financial obligations that you must fulfill. Here's what you need to know about financial management and taxation.

### Accounting and Bookkeeping

Limited companies are required to keep accurate financial records, including a record of all income and expenses, assets and liabilities, and shareholder transactions. This information must be kept up to date and accurate, and it should be recorded using an accepted accounting method such as double-entry bookkeeping.

It's recommended that you hire an accountant to help you with your accounting and bookkeeping duties. This will ensure that your financial records are accurate and up to date, and it will also help you to identify opportunities to save money and reduce your tax liability.

### Taxes

As a limited company, you'll need to pay various taxes, including:

- **Corporation tax:** This is a tax on the company's profits. You'll need to calculate your profits and report them to HMRC, who will then calculate your tax liability. You'll need to pay your corporation tax within nine months and one day of the end of your accounting period.

- **VAT:** If your company has a turnover of more than £85,000 per year, you'll need to register for VAT and charge VAT on your sales. You'll also be able to reclaim VAT on your business expenses. You'll need to submit VAT returns and pay any VAT due to HMRC.

- **PAYE:** If you have employees, you'll need to deduct income tax and National Insurance contributions from their salaries and pay these amounts to HMRC. You'll also need to submit payroll reports and make payments to HMRC.

### Annual Reporting

Limited companies are required to submit annual reports and accounts to Companies House and HMRC. These documents provide a snapshot of the company's financial position and performance, and they must be submitted within certain deadlines.

It's important to keep on top of your financial obligations as a limited company to avoid penalties and fines. Working with an experienced accountant can help you to stay on top of your finances and ensure that you're meeting all of your obligations.

In the next chapter, we'll look at some of the advantages and disadvantages of running a limited company.

# COMPLIANCE AND REGULATION

## CHAPTER 5

As a limited company, you'll need to comply with a variety of regulations and legal requirements. Here's what you need to know about compliance and regulation.

### **Companies House**

Every limited company in the UK must be registered with Companies House. This involves providing certain information about your company, such as its registered address, directors and shareholders, and articles of association.

You'll also need to submit annual reports and accounts to Companies House, which must be filed within certain deadlines. Failure to do so can result in penalties and fines.

### **Employment Law**

If you have employees, you'll need to comply with a range of employment laws and regulations. This includes providing your employees with written contracts of employment, complying with minimum wage requirements, and ensuring that you provide a safe working environment.

You'll also need to comply with data protection regulations, such as the General Data Protection Regulation (GDPR), which sets out how you can collect, store, and use personal data.

### **Health and Safety**

As an employer, you have a duty to ensure the health and safety of your employees. This includes carrying out risk assessments, providing appropriate training and equipment, and ensuring that your workplace meets health and safety standards.

### **Tax Compliance**

In addition to paying taxes, you'll also need to comply with a range of tax regulations. This includes ensuring that you keep accurate records, submitting tax returns on time, and complying with anti-money laundering regulations.

### **Other Regulations**

Depending on the nature of your business, you may need to comply with other regulations and legal requirements. For example, if you operate in a regulated industry, you may need to comply with industry-specific regulations and requirements.

Staying on top of compliance and regulation can be challenging, but it's essential for the long-term success of your business. Working with an experienced accountant or business advisor can help you to stay on top of your obligations and ensure that your business operates within the law.

# ADVANTAGES AND DISADVANTAGES OF LIMITED COMPANIES

## CHAPTER 6

Before deciding to set up a limited company, it's important to understand the advantages and disadvantages of this type of business structure. Here are some of the key pros and cons of operating as a limited company:

### **Advantages:**

- 1. Limited Liability:** One of the key advantages of a limited company is limited liability. This means that the company is a separate legal entity from its owners, and the shareholders are only liable for the company's debts up to the amount of their investment.
- 2. Professional Image:** A limited company is often perceived as more professional and trustworthy than a sole trader or partnership.
- 3. Tax Efficiency:** Limited companies can be more tax-efficient than other types of businesses, as they are able to claim certain expenses and allowances that are not available to sole traders or partnerships.
- 4. Investment Opportunities:** Limited companies can raise funds by issuing shares, which can be an attractive option for investors looking to support a growing business.
- 5. Continuity:** A limited company is not dependent on the individual or individuals who own it, meaning that it can continue to exist and operate even if the original shareholders or directors leave.

### **Disadvantages:**

- 1. Complexity:** Setting up and running a limited company can be more complex and time-consuming than operating as a sole trader or partnership.
  - 2. Increased Costs:** Limited companies are subject to various costs and fees, such as registration fees, annual accounts fees, and corporation tax.
  - 3. Public Disclosure:** As a registered company, certain information about the business (such as accounts and directors' details) is publicly available, which may not be desirable for some business owners.
  - 4. Greater Responsibility:** Directors of limited companies have a greater responsibility to ensure that the business complies with legal and regulatory requirements, which can be daunting for some.
  - 5. Limited Control:** Shareholders of a limited company have a say in how the business is run, which can limit the control that the original founders have over the direction of the company.
- Overall, there are both advantages and disadvantages to operating as a limited company. It's important to carefully consider these factors before making a decision about the most appropriate business structure for your needs.





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