Limited Company 101

A Guide for Business Owners

KENNEDY

ACCOUNTANCY

Congratulations, you have set up your limited company! Now there is a lot to learn but don’t worry, this guide has you covered.

In this guide you will learn

- First steps
- The Jargon
- Taxes you (and your company) need to pay
- Bookkeeping essentials
- Filing requirements and deadlines
- Paying yourself
- Employing staff
- Business expenses and deductions
- Directors Loan Accounts
- Benefits in kind
- Common Mistakes & how to avoid them

What is a Limited Company?

A limited company is a distinct legal entity, separate from its owners (shareholders) and the people who manage it (directors). This separation provides limited liability, meaning your personal assets are protected if the company faces financial difficulties, provided you haven’t given personal guarantees.

The key takeaway here is that the company is separate from you as the owner. This means the company’s money is not yours! More on this later.

Key features of a Limited Company are:

- It can own property, enter contracts, and be sued in its own name.
- Profits belong to the company, which can then distribute them as dividends to shareholders.

First Steps

- Once the company is formed you will receive a UTR number from HMRC. Keep this letter safe! This is the number HMRC will use to identify the company. You should also pass it on to your accountant.
- The company MUST, legally, have a bank account in its own name so get one set up. This cannot be in your personal name.
- Once the company starts trading you need to tell HMRC the date trading started.

The Jargon

Directors

The people who are responsible for running the company. They have responsibilities - see here for more info on those.

Shareholders

The people who own the company shares. It is these people who are entitled to receive dividends. It is likely in your case the shareholders and directors are the same people;

Profit

Profit is the amount left over when expenses are deducted from the sales the company has made. The company pays tax on the profit.

Dividends

Dividends are payments paid to shareholders out of profits made by the company.

They can only be paid from post-tax profits (profits after Corporation Tax has been allowed for)

They are paid in proportion to the number of shares the shareholder owns in the company;

They are not a tax deductible expense of the company (so they do not reduce the company profit)

When a dividend is paid a dividend voucher should be created which is a bit of paper with the relevant details on it;

You pay tax on dividends. See further on for details.

Taxes your company (and you) need to pay

Corporation Tax

- Your company pays Corporation Tax on its profits. Rates of tax are as follows:
  - 19% on profits up to £50k;
  - 26.5% on profits between £50k and £250k (marginal relief is available which is a technical tax point, see this HMRC page;
  - 25% on profits over £250k;
  - This all changes if you have an 'associated company' where another company is under the same ownership. This means the tax thresholds are reduced. See info here on associated companies.

Value Added Tax (VAT)

- Registration is mandatory if your turnover exceeds £90k in any 12-month period. Note ANY 12 month period, not just your financial year. So you need to look back at the end of every month and see if you have gone over it in the last 12 months. But ideally you be looking ahead and know when it's coming up.
- You can register voluntarily if beneficial (e.g., for reclaiming VAT on purchases).
- There are different VAT schemes available but generally, you pay VAT on your sales and deduct VAT you pay on your purchases (if you have been charged VAT).

Taxes continued

PAYE for Employees and Directors

- If you pay yourself or employees a salary, you must register for PAYE.
- Report salaries, tax, and National Insurance Contributions to HMRC monthly using RTI (Real-Time Information).

Dividend Tax

- Dividends paid to shareholders are taxed after the £500 tax-free allowance.
- Rates depend on your income tax band: Basic (8.75%), Higher (33.75%), and Additional (39.35%).

Bookkeeping Essentials

- Set yourself up for success and do the bookkeeping right from the start. The best way is to let us do it. The next best way is as follows...
- Set up bookkeeping software
- Use a receipt capture app alongside the software to take photos of receipts. Dext is a brilliant option. No more bits of paper!
- Get an expert to train you how to use it. Properly!
- Keep the bookkeeping up to date. Set aside 30 minutes each week and process it all the way you have been shown to. This will mean the overwhelm doesn’t get on top of you, trust me!

Filing Requirements & Deadlines

Annual Accounts

The company must submit annual accounts to Companies House within 9 months of the financial year end;

Confirmation Statement

A Confirmation Statement is a simple annual update to Companies House, confirming that your company's information (e.g., directors, registered office address, shareholders) is up-to-date.

Corporation Tax Return (CT600)

This reports your profits and corporation tax liability to HMRC. You have to pay the tax within 9 months and 1 day after your financial year end and file the return to HMRC within 12 months after the year end.

Self-Assessment Tax Return

If you take dividends from the company then you will need to complete a personal tax return via Self Assessment. This is due 9 months after the tax year end - for tax year 24/25 this is by 31 January 2026; If your tax bill is over £1,000 you will need to make a payment on account. See more info here.

Paying Yourself - How will you get money out of the company

Remember - the company's money is not yours. Some of the money in the company bank account will belong to others as well like suppliers and HMRC. You need a strategy for how you will get the money out. This will depend a lot on your own personal circumstances so make sure you have discussed this with your accountant to make sure it works for you.

There are two ways to pay yourself from the company:-

Salary

- Via a salary i.e. as an employed director of the company.
- Everyone is entitled to a Personal Allowance (£12,570 for 2024/25) of tax-free income. Taking a salary helps you use this allowance efficiently.
- Salaries are treated as a business expense, reducing your company's taxable profit and Corporation Tax liability.
- Paying yourself a salary up to the NIC threshold (£12,570) allows you to qualify for state benefits like the State Pension without actually paying NICs (assuming no other income)

Dividends

- Once personal tax allowances have been maximised through salary, many people then look to dividends to take the rest of what they need out of the company. This is because dividends are taxed at a lower rate than salaries.
- Remember though that the company needs to have profits to take a dividend.
- Dividend Tax Rates (2024/25)
- Tax-Free Allowance: £500 per year.
- Basic Rate Taxpayer: 8.75%.
- Higher Rate Taxpayer: 33.75%.

Employing Staff

If you are going to pay yourself a salary as a director, or take on employees, then here are the basic need-to-knows.

You need to register as an employer with HMRC. Once you get your PAYE reference number you will need to get someone to run payroll for you. This needs to be a QUALIFIED person - do not do this yourself!

You pay yourself and/or your staff and you also pay their tax and National Insurance to HMRC on their behalf. You will also have pension obligations (not as a director but if you have other employees).

You should always consider the 'hidden' costs of employing staff. For someone on a £25k salary the cost to your business is actually around £27,500 by the time you factor in pension and NI. In some cases the NI will be covered by the Employment Allowance (link here) but it's worth factoring it in as worst case scenario.

You should also take HR advice as there are lots of things to consider in terms of contracts, workers' rights that you need to get right from day one.

Business Expenses and Deductions

There is no exhaustive list of what expenses can be claimed as a company expense which will in turn reduce the corporation tax bill. HMRC's view is that the expense must be 'wholly and exclusively' for the business, which in reality means there are a LOT of grey areas. Always worth speaking to your accountant before you make any big purchase but here is a list of common expenses that are and aren't tax deductible:-

Expenses you can claim

- Wages and salaries
- Travel (not home to work commute). If the company does not own a vehicle then do not put fuel through the business. Instead keep a note of business mileage and claim 45p per mile for use of your personal vehicle;
- Pension contributions (a brilliant way to save tax and save for your future!)
- Training costs
- Accountancy fees
- Office rent
- Stationery, office supplies
- Computers
- Equipment used in the business
- Advertising
- Branded clothing
- Staff entertaining (limits apply) - see link here
- Vehicles used in the business e.g. vans, lorries. Cars are generally a terrible idea as they will cost a fortune in tax unless they are electric;
- Software and subscriptions

And ones you can't

- Clothing that isn't PPE or safety clothing, unless it is branded with your business logo. This is a really common one. People think they 'need' certain clothing for business e.g. a lawyer wearing a suit but this isn't allowable unless it's branded;
- Fines or penalties e.g. HMRC penalties
- Client entertaining
- Doggy day care or children day care
- Personal expenses

Director's Loan Account - DLA

The DLA tracks transactions between you (as a director) and the company that are not classified as salary, dividends, or reimbursed business expenses. You really don't want to get into an overdrawn DLA position - read the tax implications below to see why! The account can have one of two balances:

Credit Balance - Company owes you

Occurs when you've lent more money to the company than you've withdrawn. Example: You inject £5,000 into the company's bank account to cover expenses.

Debit Balance - You owe the company

Occurs when you've withdrawn more money from the company than you've put in. Example: You withdraw £3,000 from the company for personal use without it being salary or dividends.

Borrowing from the Company

If you borrow money from your company, there are strict rules to follow:

1 Repay within 9 months

- Any outstanding loan balance must be repaid within 9 months and 1 day of the company's financial year-end.

2 Tax implications for the Company

- If the loan is not repaid on time, the company must pay additional Corporation Tax at 33.75% of the outstanding amount. This is known as S455 tax.
- The company can reclaim the S455 tax from HMRC, but only after the loan is repaid.

3 Tax implications for the Director

- If the loan exceeds £10,000 at any point during the tax year, it is treated as a benefit in kind.
  - You must pay Income Tax on the loan as a benefit.
  - The company must pay Class 1A National Insurance Contributions (NICs) on the benefit.

4 Charging interest

- If the company charges you interest on the loan at or above HMRC's official rate (currently 2.5%), it's treated as a commercial loan and avoids benefit-in-kind tax.
- If no interest is charged, the loan is considered a benefit in kind.

Lending money to the Company

If you lend personal funds to your company, you can withdraw the money at any time without tax implications. The theory being you have already paid tax on that income.

Keep your DLA in Credit!!

Benefits in kind

Remember the company is separate to you. Therefore, if you or employees use a company asset then you are getting a benefit from that. It doesn't belong to you. This can mean you might have tax to pay on that benefit, and so will the company.

This is a complex area but it arises most with company cars, where they are not used 100% for the business. And in reality, very few cars are. Company Car BIK rates are very high for diesel and petrol cars and this is why it's generally a terrible idea to buy a company car if it's diesel or petrol. An electric car is a better idea as the BIK rate is 2% which is very low, so you would pay very little tax to get the whole cost of your family car through the business.

This is a complex area outwith the scope of this guide so speak to your accountant if you want more guidance.

BIK can also be payable on things like medical insurance and health cover, where the company is paying for something the director gets a personal benefit from.

Common Mistakes & how to avoid them

- Putting lots of personal expenses through the business, that then need to be declared as a dividend. That is fine if there are profits to cover the dividend, but it's a mess if there isn't and there is then an overdrawn director loan to deal with. Get into a proper routine with your pay strategy and don't put personal items through the company that you won't get tax relief on;

- Not saving for tax as you go. Use bookkeeping software to track your profit as you go, and put money aside into a savings pot or separate account. That money is not yours to spend! Same with VAT and PAYE taxes. There is no excuse. It is a great place to be when you have the tax bill already saved rather than panicking that you have spent it all;

- Not claiming enough expenses that could be allowable, like annual staff parties and trivial benefits - <u>see link here</u>. Make the most of the tax benefits that come with a company!

- Not keeping bookkeeping up to date. You can't make business decisions if your bookkeeping information is months old. It needs to be current so you can know the key numbers in your business.

- Listening to friends and family and their 'tax advice'. BIggest pitfall of all!

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