

“...starting as a limited company can be a daunting experience for the first time. However, there can be tax efficient methods of running a business if you are aware of your obligations!”

Andrew Diver ATT CTA  
Head of Tax at Beatons Group



### Starting out in business as a limited company

If you have decided to start in business as a limited company what are some of the steps/considerations you should make?

### Ongoing Administration with Companies House

A limited company must file an annual return which includes details of the company directors and shareholders. The company should also file its accounts with Companies House usually within 9 months of its year end (for public companies the deadline is a tougher 6 months).

Small companies can file a more simplified set of (abbreviated) accounts which do not require auditing or include a profit & loss account. The accounts for medium sized companies must still file a profit & loss account albeit an abbreviated version.

The following exemptions apply for small & medium sized businesses:

Size	Turnover	Asset Value	Employees
<b>Small</b>	Less than £6.5m	Less than £3.26m	Under 50
<b>Medium</b>	Less than £25.9m	Less than £12.9m	Under 250



**Starting a limited company**

## Taxation

Unlike a partnership or sole trader a company is a separate legal entity from its owners or its directors. As a result it is liable to corporation tax. Corporation tax is generally due 9 months after its year end (i.e. same date as the accounts filing date). A corporation tax return needs to be filed annually within 12 months of the accounting year end.

## VAT

Any business must consider whether it should register for VAT. Simply there is a requirement to register for VAT for businesses who have turnover/sales over £70,000 in the next 12 months. In addition, businesses with turnover below this level may find it beneficial to register for VAT to enable them to reclaim VAT on their costs/purchases. Registration for VAT can be done completing a form VAT1. There are also a number of other schemes to simplify accounting for VAT for businesses. These include the flat rate scheme, retail schemes and annual or cash accounting. VAT can be daunting for new business owners. If you would like some assistance please contact us.

## Payroll

If a limited company is to employ staff (or pay it's directors a salary) then it must register as an employer with HM Revenue & Customs. This is a simple process which can be done by calling the New Employer Helpline on 0845 6070143. This will enable the collection of PAYE and National Insurance to be collected from payments made to employees.

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## Dividends or salary

There are several different ways in which an owner-managed business can remunerate its shareholders. The decision as to whether it is more tax efficient to take monies from the business by way of dividends or salary is dependent upon the profits of the business and the level of remuneration required for the owner. It is often more beneficial for dividends to be paid for example, a business with profits of £200,000, to receive £50,000 net after tax would cost the company in salary £74,050. However, by using a combination of salary and dividends it would only cost £53,720. This example clearly shows not only the substantial saving which can be made but also and the additional tax costs that you may incur if you are not operating efficiently.

### Call Us:

Felixstowe: +44 (0) 1394 279 692  
Ipswich: +44 (0) 1473 287 051

### Email us:

Email: [info@beatons.co.uk](mailto:info@beatons.co.uk)



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