

Practical Summary Guide for Directors of Limited Companies

Limited Company or not?

- This is a complex area – take advice specific to your circumstances before taking any action.
- The choices are: sole trader, partnership, limited (liability) company or limited liability partnership ("LLP").
- Limited liability means there is a limit on the owner's liability if things go wrong.
- There are some 'unlimiting' factors, and these are becoming more common.
- Limited liability does have advantages but may cost more. There are additional set up costs and accounts and returns to be prepared in a specific format for Companies House.
- Limited companies are taxed differently to sole traders, partnerships and LLPs. The tax pros and cons will depend on your circumstances.
- What if I change my mind? It is relatively easy to move from sole trader, partnership or LLP into a company. It is less easy to move out of a company to a sole trader, partnership or LLP.
- You can be a director of the company as well as a shareholder. A director runs the company, a shareholder owns the company.

Forming a Company

- A company is formed by filing the appropriate papers at Companies House.
- It is important the company is set up correctly, and in such a way as to enable it to grow under your control.
- When naming the company you need to ensure the name you wish to use is not used by another and meets the requirements if you want to use any 'reserved' words in the company name.
- All staff, including directors, are employees of the company and payroll regulations, including PAYE, must be applied.

Registering with H M Revenue & Customs

- H M Revenue & Customs require each company to prepare a company tax return and will write to you shortly after your company has been formed to obtain information to enable them to set up their files.
- A company pays corporation tax on its adjusted profits.
- If certain turnover thresholds are exceeded, the company will need to register for VAT and keep records to enable it to comply with VAT law.
- The company will need to set up a payroll (PAYE) scheme.
- Company directors are required by H M Revenue & Customs to prepare and submit income tax returns each year.

Working with your Bankers

- The company will need a bank account, in its own name. There are certain formalities involved in opening a bank account.
- Banks can provide overdrafts or loans, but are likely to require some form of security, or guarantee, from you, together with a business plan demonstrating the feasibility of your proposal.

Other Issues

- Your company may pay dividends to the shareholders, but only if it has made a profit.
- Your company may need to have its accounts checked by an auditor if it meets certain size or regulatory criteria. An audit is an independent check of the accuracy of the accounts.
- If you get into financial trouble, take advice, keep your bank informed and don't continue to run up liabilities you might not be able to meet.

- If you are in business with others then ensure you have a written Shareholders Agreement, setting out how you agree to do business; it is important such agreements are in place from the outset before any disputes arise.

Directors Responsibilities

Directors responsibilities are now set out in law, Directors should:

- Act in accordance with the company's constitution and powers.
- Promote the success of the company for the benefit of the shareholders.
- Exercise independent judgment.
- Exercise reasonable skill, care and diligence.
- Avoid conflicts of interest.
- Not accept benefits from third parties.
- Declare interests in proposed transactions of the company.

In Addition:

- Directors are required by law to keep 'proper accounting records', and prepare year end accounts to an acceptable standard each year.
- Decisions made by the directors should be properly minuted (recorded).
- The directors should monitor the company's financial performance and if the company hits problems, take advice as soon as possible.

Contact us

Please do contact us if you would like further advice.

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