

## Frequently asked questions

We have compiled a list of questions we often get asked by our customers as a useful reference guide. If you can't find the answers you're looking for below, then please don't hesitate to contact us.

Please note: Hadden Business Solutions will be referred to as 'HBS' throughout this document.

### General Queries

#### Q *What is a Limited Company?*

- A A Limited Company is seen as an individual legal entity in its own right and must be run and operated within the 'Companies Act 2006'. The company's assets, liabilities and debts are viewed as its own and are therefore not treated as belonging to the company's shareholders and/or directors.

#### Q *What administration work is required in setting up a Limited Company?*

- A HBS can take care of most of this for you, however, inevitably there will be some paperwork you are required to sign, as you will be Director of the Limited Company. HBS will take care of as much of this as is possible, leaving you free of the often time consuming admin involved in setting up a Limited Company.

#### Q *How do I set up my own Limited Company?*

- A HBS can set up your Limited Company for you. All you need to do is complete our short "new client form" and return it to us. Your company could be incorporated within as little as 24 hours of us receiving your completed form!

#### Q *I need help setting up a Limited Company bank account.*

- A As soon as your company has been registered at Companies House by HBS the next stage is opening a bank account for the company. We can help you complete the application forms if you choose to use our recommended partner Cater Allen. Alternatively, all High St banks offer Limited Company facilities.

#### Q *What is IR35?*

- A IR35 is the government's process to determine your employment status. In short it is there to determine whether you are a genuine contractor; or whether you should be employed and are avoiding paying PAYE on your full earnings. For more information, visit <http://www.hmrc.gov.uk/ir35/>

#### Q *What advantages are there of trading through a Limited Company?*

- A There are various advantages to trading as a Limited Company such as:
- It can be a more tax efficient way to work than under PAYE
  - Limited Liability – as the company is seen as a separate entity in its own right; the personal assets & wealth of the officers of the company are protected if the company were to hit financial difficulty. They can only lose the value of their shareholding
  - You can give a share of the business to others
  - Limited Companies can allow you to "plan your tax" – money earned can be left in the Ltd company and taken as income in future years
  - Obtaining bank loans can be easier
  - Some companies will only deal with other Limited Companies

#### Q *I already have a Limited Company; can I move it to HBS?*

- A Yes, all you need to provide us with is the name and address of your current accountant (if you have one). We will do the rest! If you do not have an accountant, simply provide us with the following documents:
- A copy of your Certificate of Incorporation
  - A copy of your Memorandum and Articles of Association
  - A copy of your latest accounts

## Limited Company Trading

### Q How do I invoice my client?

A HBS will take care of all your invoicing requirements on your behalf (enhanced service only).

### Q What if I decide I no longer need the company?

A If the company hasn't traded for 3 months, you can apply to have Companies House remove the company from their register.

### Q What accounts and records must a limited company keep?

A All Limited Companies are required by law to keep records of all payments, receipts, assets and liabilities.

### Q Do I need insurance?

A Most probably, yes. You will need insurance to cover the requirements in your contract. You can visit our website to access a link to receive a customised insurance quote from Counce O'Hara.

### Q What insurances do I need?

- A
- **Professional Indemnity Insurance:** financial security in the case that a claim is made against your company
  - **Public Liability Insurance:** protection against claims for damage or injury to people or property

### Q What taxes/liabilities do I have to pay?

- A
- **Corporation Tax** (currently 20%) on the company's annual net profit
  - **VAT** (Value Added Tax), currently 20% if the company's turnover is above £73,000 per annum
  - **PAYE**

### Q How do I know how much VAT, Income tax, National Insurance and Corporation tax I need to pay?

A HBS, acting as your accountants will notify you of the amount of tax due and in more than sufficient time to enable you to meet HMRC payment deadlines. (This is reliant on us receiving the necessary information in the timespan agreed). By law, your company will have to hold sufficient cash reserves to pay these liabilities.

## Getting Your Money

### Q How do I get paid my money?

- A
- **Salary:** As a director (and an employee) of your company, you will be paid a salary. This salary is processed monthly and a payslip will be sent to you along with instructions on how much money you are to be paid after PAYE tax has been deducted. Your salary is a company expense and will reduce the amount of corporation tax the company will have to pay.
  - **Expense Disbursements:** Any business expenses personally incurred can be claimed back from your company. A list of the kind of things that you can claim can be found on the HBS expenses guide.
  - **Dividends:** Providing there are enough post-tax profits in the company you (and any other shareholder) will be able to draw a dividend.

### Q How do I set up a payroll?

A HBS do this for you. We will register your company as an employer with HMRC, process the company's monthly payroll and inform you of any payments that need to be made.

### Q How much should I pay myself?

A This is your decision, the majority of people prefer to take a low salary and higher dividends (dividends do not have NI deducted). HBS can provide you with various illustrations that will help you decide the best, most tax efficient way of paying yourself.

### Q Can I employ someone?

A Yes. We will require the new employee's details in order to add them to the company payroll.

### Q What expenses can I claim?

A Generally speaking, any expenses that can be directly attributed to your business activity can be claimed. For a more detailed list, please see the HBS guide to expenses.

### Q What is a dividend?

A A dividend is the payment or distribution of profit to shareholders of your Limited Company.

### Q How often can I draw a dividend?

- A As long as your company can meet its tax obligations to HMRC then a dividend can be paid as often as you like. Generally this is done quarterly, but no more often than monthly. HBS will advise you of your tax liability to enable you to decide on how many dividends to draw.

### Q What are dividend tax credits?

- A When you receive a dividend, your total "dividend income" will include the actual money you received PLUS a "tax credit". The money that was received is 90% of your total dividend income and the remaining 10% is the "tax credit". When you are completing your annual self assessment return, your total dividend income must be declared. The 10% tax credit is then deducted off the Income tax due on the dividend income.

### Q What Income Tax do I pay on dividends?

- A
- **If you pay tax at or below the basic rate:** You will pay no tax on your dividend income. This is due to the tax liability on dividends at the basic rate being 10%, which will be covered by the tax credit.
  - **If you pay tax at the higher rate:** The income tax rate on dividends at or above the higher tax rate is 32.5%. However, due to the 10% tax credit received this rate is effectively reduced to 25% of the money paid to you as a dividend.
  - **If you pay tax at the additional rate:** The income tax rate on dividends at or above the additional rate is 42.5%. However, due to the 10% tax credit received this rate is effectively reduced to 36.1% of the money paid to you as a dividend.

**Note:** Dividend income is treated in the same way as income from savings and is taxed after your wages or self-employed income, thus taxed at the highest rate applicable. For example, if your salary income is £20,000 and your income from dividends is £20,000 then £15,000 of your dividend income will be charged at 10% (and covered by the 10% tax credit) and the remaining £5000 from dividends will be charged at 32.5% (less the 10% tax credit).

## VAT

### Q Do I have to register for VAT?

- A If your Limited Company's turnover is (or expected to be) over £73,000 in 2011/12, then you will need to be registered for VAT and charge VAT on your invoices. There are a few VAT schemes which may be beneficial to your company - contact HBS for further information.

### Q How do I register for VAT?

- A HBS will do this for you and complete all of your company VAT returns. We will also advise if any of HMRC's VAT schemes could be beneficial to your company.

### Q How often do I have to make payments and at what rate?

- A This is dependent on which VAT scheme you join, and payment frequency could vary from monthly to quarterly payments. HBS will advise you of how much VAT you need to pay and the different payment options available to suit you.

### Q What is the Annual Accounting Scheme?

- A The VAT Annual Accounting Scheme allows you to make 10 monthly or 3 quarterly payments of the same amount towards your VAT liability for the year. You then make one final payment for the balance due. The scheme makes it much easier for you to manage your company's cash flow.

### Q What is the VAT Flat Rate Scheme?

- A This scheme can be very beneficial to companies who have a low amount of purchases and was introduced by HMRC to simplify VAT returns for small businesses. You will charge the full VAT rate (20%) on your invoices to clients, but will pay a significantly lower percentage to HMRC to account for the VAT reclaimable on purchases. The percentage paid to HMRC will depend on the main business activities of your company.

#### Important facts about the Flat Rate Scheme:

- If your turnover is anticipated to be higher than £150,000 in your first year, or reaches over £230,000 (VAT inclusive) at any point, then you must exit the scheme
- Members of the Flat Rate Scheme are unable to claim back the VAT on any purchases that value under £2000

## A VAT Flat Rate Scheme example

- Company Sales: £30,000
- Company Expenses: £1,500
- VAT Flat Rate Scheme Percentage: 13.5% (including 1% discount for 1st year)

	"Normal" VAT Accounting		VAT Flat Rate Scheme	
Invoice Net (vatable)	Sales	£30,000	Sales	£30,000
Invoice VAT	$30,000 \times 20\%$	£6,000	$30,000 \times 20\%$	£6,000
Gross Invoice/Turnover	$30,000 + 6,000$	£36,000	$30,000 + 6,000$	£36,000
Purchases (vatable)	Expenses	£1,500	Expenses	£1,500
VAT paid on purchases	$1,500 \times 20\%$	£300	$1,500 \times 20\%$	£300
Total purchase cost	$1,500 + 300$	£1,800	$1,500 + 300$	£1,800
VAT Liability	$6,000 - 300$	£5,700	$36,000 \times 13.5\%$	£4,860
<b>VAT paid to HMRC</b>		<b>£5,700</b>		<b>£4,860</b>

Benefit from company being on VAT Flat Rate Scheme (5,700 - 4,860) is **£840**