

# Helping you transfer to a limited company

Congratulations on your decision to transfer your sole trade business to a limited company.

You'll have many things to think about over the next few months as you get your business off the ground.

To help you keep on top of money matters, we've created this handy booklet to help you with financial and accounting tasks.



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## Let's get started

Thank you for choosing us as your accountants.

To make our arrangement official, you need to sign what is called a 'letter of engagement'. It sets out the relationship between us and the things we agree to do for you. We'll arrange for this to be sent to you shortly.

If you already have an accountant, we have to write to them and ask them for certain information about you. It would be helpful if you could let them know we'll be in touch.

Under money-laundering regulations, we have to check your identity. To do this, we'll need these three things:

- A current photo ID (passport or driving licence)
- A recent home utility bill (gas, water, electricity, telephone, satellite TV etc)
- A bank statement from the last three months with your name and address on it

We may also have to carry out some other checks to confirm your identity.



At Larking Gowen, we see ourselves as more than purely chartered accountants.

We'll look after your tax and finance issues, with a friendly one-to-one service you can count on."

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## Understand the difference between a sole trader and a limited company?

Running a limited company is a more formal way of trading than as a sole trader. The way in which you record your income and expenditure will not differ greatly, and the rules surrounding VAT are very similar. However, other aspects are very different, and it's important that you understand them, right from the start.

Unlike a sole trader or a partnership, a limited company is a legal entity that is completely separate from you as its owner. The company will need to have its own bank account set up and you'll need to be careful not to pay personal expenses from the company as this could have tax implications.

The company is owned by shareholders (of which there can be more than one) and is run by one or more directors, who are appointed by the shareholders. In many small companies these are the same people, or person, but this isn't always the case. Directors must act in the best interests of the company, and there are various duties which a director is required to follow to make sure the company is trading correctly. It's important that the directors fully understand these responsibilities.

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## Set your year end

You'll need to consider your new company's year end.

Your year end normally falls at the end of the month in which your company was incorporated. You may decide to keep this the same as your sole trader's year end, or you may change it to better suit your company.

For example, you may want to avoid sorting out your annual accounts during your busiest period. We can help you with choosing the right year end date.

## Incorporating your new company

Your new company needs to be incorporated with Companies House.

We can do this online for you.

The first thing to be considered is the company name. Once you've picked one, we'll be able to check the availability and make sure it's not already being used by another company.

We'll then ask you to complete a form which details the company's particulars (such as quantity of shares, who will own the shares, who will be a director, addresses, etc) and this will be the information which we use to incorporate the company.

It's your responsibility to make sure the information is correct. We also ask you to consider whether the directors you're proposing are able to act as a director as there are certain requirements around this.





## Set up your bank account

You'll need a dedicated business bank account.

You can choose whichever bank you prefer; most have accounts designed specifically for businesses. You may already have a bank account for your sole trade business, however, you'll need to open a new, separate account for your limited company.

You can pay income from when you were a sole trader into the old account, and eventually transfer the money over to the new company account and close the old one.

Any standing orders paid from your sole trade account need to be transferred to your new business account.

Some banks will take care of this for you.

## Tell HM Revenue & Customs

When the company is incorporated, the agent we use will automatically tell HM Revenue & Customs (HMRC) that the company exists and will register it for corporation tax. You'll then receive information from HMRC, confirming the company's tax reference and filing deadlines.

As a director of the company, you will still be required to complete a personal income tax return under Self-Assessment each year as before. However, this procedure should be a little less complex, as your return will no longer need to include the business tax element of your sole trade.

We can assist you with this if you would like. To tell HMRC the sole trade business has ceased, we'll simply include a note to this effect on your relevant personal income tax return. No separate form needs to be completed.

## Tell your customers and suppliers

If you're changing from a sole trader to a limited company, you need to make sure your customers and suppliers know about the change.

You may have to tell your customers whether they should send payment for outstanding invoices to the sole trade business or the limited company during the changeover period.

If you're transferring any vehicles from your sole trade to the company, you need to tell the DVLA.

If you had any finance agreements as a sole trader, they also need to be transferred to the company.

## Transfer your employees

If you have employees, you'll need to set up a new PAYE scheme so you can pay them through the new company. We can help you set this up.

Strictly speaking, you need to send all your employees P45s and give them new contracts of employment with the new company. However, HMRC will sometimes let you skip some of these steps, in what they call an 'employer succession'. We can offer you advice on this.

It's worth also reminding you that, if you're employing staff (regardless of which structure you trade as), you'll most likely be required to implement some form of workplace pension scheme. This is something on which we can give you some guidance, however, you'll also need to contact an independent financial advisor for further assistance.



## Register for VAT if you need to

You may already be registered for VAT in your sole trade. This can be transferred over to your new company and it's possible to retain your VAT number, but you'll need to start keeping new records from your date of incorporation. If you're not registered, it may be something to consider as you set up and start to operate under your new company.

Registering for VAT means you charge VAT on your sales and can claim back VAT on some business expenditure (depending on what you do or sell). You're required to report these details to HMRC and pay the difference, every quarter, between any VAT due on your sales and any VAT due back to you on your expenses.

If your turnover (total sales) in any 12-month period is over £90,000, you have to register for VAT. Some companies choose to register for VAT even though their sales are below this level.

We can help you to decide whether you need to register for VAT and advise you on the alternative ways of working out and paying your VAT.



## Get new stationery and signs

You'll need a letterhead and an invoice template showing:

- Your company name
- Your company registration number and place of registration (for example, 'A Company Registered in England and Wales')
- The address of your registered office
- Your VAT registration number (if applicable)

You don't have to show directors' names on stationery but, if you do, all the directors must be listed. Your company name should be displayed clearly, outside every office or workplace you use. You also need to display your name and registered office address in your registered office.



## Start keeping financial records

As a limited company, you need to keep up-to-date records of all your sales and business purchases, much in the same way as you did for your sole trade business. Make it part of your weekly or monthly routine, or record each transaction as it happens. HMRC are getting tougher on record-keeping, so don't be tempted to cut corners or put it off.

Bookkeeping for a company can be a little more complex than for a sole trader. The advantage of keeping accurate records is that you have a good sense of your cashflow, and how your business is doing. As a director, you're responsible for making sure the business is not trading while insolvent (unable to meet its liabilities when due).

We recommend taking advantage of cloud accounting software such as QuickBooks Online or Xero. These can save you time and make sure your records are more accurate. They're also Making Tax Digital compliant, so if you're VAT registered, you can very easily meet the requirements.

As the director of a limited company, you have to keep both business and personal financial records for at least six years. For personal purposes, the tax year runs from 6 April to 5 April and we recommend you retain all information relating to income and gains made each year. Keep all your business receipts and invoices in a separate file. At the end of the financial year, you can pass the file to us and we'll use it to prepare your annual accounts, along with the details you've entered into your software.

We have an outsourcing team who complete bookkeeping for various types and sizes of businesses and we'd be happy to help you.

## Filing requirements of a company

As a limited company, you have to file your annual accounts with Companies House within nine months of the end of your accounting year. Company accounts are produced to a set format that includes a director's report, a profit and loss account, a balance sheet and notes. However, many smaller firms only need to file a shorter version, known as 'filleted accounts.'

At the year end, we'll prepare both your business accounts and your own personal tax return using your records, receipts/invoices and bank statements, along with details of any other personal income you've had during the year.

**Corporation tax:** If your business made a profit over the year, you'll need to pay corporation tax to HMRC. Once your accounts are complete, we'll let you know how much tax there is to pay, and when you need to pay it. Corporation tax must be paid within nine months and one day of your year end.

**Confirmation statement:** Once a year, you'll also have to submit a confirmation statement for your company, which lists administrative details, such as directors, company secretary, shareholders, details of addresses and so on, and notifies Companies House of any changes. The annual filing fee for this return (even if you complete this yourself) is £34. We can help you prepare and submit your annual confirmation statement online.



## Start reconciling your bank balance

Before we can do your accounts or VAT return, we have to make sure your records tally with the transactions on the company's bank account.

This is called 'reconciling' your bank balance.

We can help you with understanding this and help you with any reconciliation work.

## Decide how to remunerate yourself

As your new limited company is a separate legal entity, the profits earned in the company are owned by the company.

You'll need to consider how to extract the profits to be paid in the most tax efficient way. As an officer of the company you'll be taxed as an employee and any salary drawn will be taxed through the PAYE system and be subject to National Insurance. Investors in companies can be rewarded by means of dividends.

**Benefits in kind:** As a director, the company could decide to pay for personal expenses on your behalf. For example, it could pay for private healthcare costs, professional fees, or a company car. However, expenditure like this will invariably lead to a National Insurance charge for the company and an income tax charge for you as a director.

This is an area which we strongly recommend you discuss with us beforehand so you understand the tax implications

**Company pension:** You may be able to set up a company-funded pension scheme. The payments are tax-deductible for the company, but the tax relief may be less than you would get if you made the payments yourself. Auto enrolment affects all new employees and therefore a company pension scheme may well be unavoidable in situations where you have employees. We can put you in touch with financial advisors who can help you make the right decision.



## Understand what expenses you can claim

As a limited company, the company will pay tax on its profits (income minus expenses). Note that, as a company, your expenses include any salary that you pay yourself as a director. The expenses you can claim will vary based on the type of work you do, but below is a list of common examples:

**Materials.** The cost of goods you buy and resell to your customers – e.g. paint for a decorator. At the end of each financial year, we'll need to know the cost of any stock held.

**Wages.** If you employ anyone, they'll need to be paid through a PAYE scheme. We recommend running a monthly payroll.

**Using your home for business.** If you work from home, you can claim £6 per week, or sometimes more based on the number of rooms you use and your household expenses. We can help you with this.

**Laundry.** Tradespeople can claim a small amount for cleaning work clothes such as overalls, boiler suits and so on.

**Clothing.** Only work-related clothing can be claimed. Protective clothes such as fluorescent jackets and steel-toe cap boots are allowed, and so is clothing with your logo (because it counts as advertising). 'Normal clothes' like jeans, t-shirts and suits aren't allowed.

**Telephone.** You can claim for one mobile or smartphone in the business's name, either on a contract or bought outright, or a dedicated landline. You can also claim for business calls made on your home phone.

**Postage and stationery.** Printed items such as business cards, letterheads and invoices, stationery products such as printer paper and the cost of postage or couriers are all allowed.

**Advertising.** The cost of all online and offline advertising is allowed, including newspaper and magazine adverts and websites. Sponsorship and entertaining clients don't count as advertising.

**Professional fees.** You can claim for our fees and those of any other professionals, such as lawyers, as well as memberships of trade associations.

**Vehicles.** If you use your own car, record your business miles in a diary or with an app (we can recommend one). You can then claim 45p/mile for the first 10,000 miles in a year, and 25p/mile after that. If you use a van solely for work purposes, you can claim the costs of buying and running it. Driving between home and work does not count as business travel.

**Assets.** If you buy things you'll use for a long time, such as vans, computers, tools or machinery, you can claim a capital allowance for several years afterwards. We can help you with this. Make sure you keep all invoices.

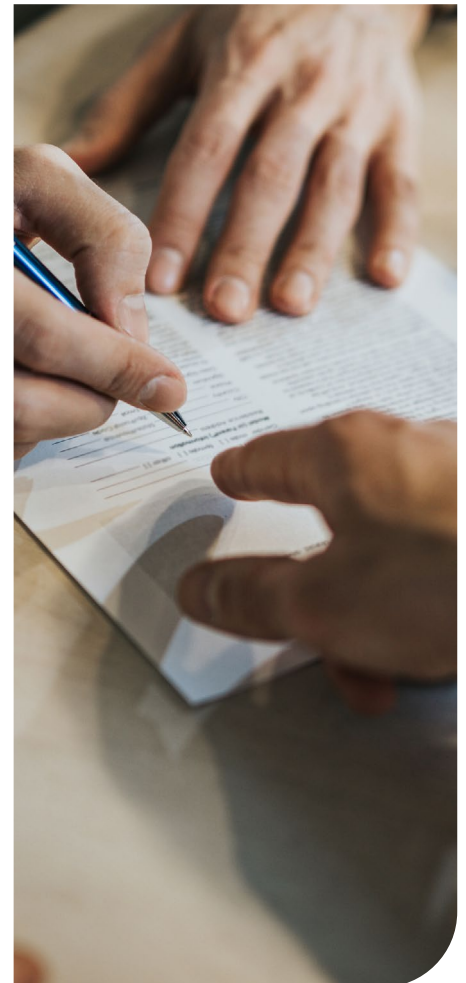
**Finance.** If you borrow money, you can claim any interest you pay and the cost of getting the loan or making a financial agreement. The actual repayments on a loan don't count against tax, only the interest.

**Entertaining.** If you entertain someone as part of your work, write their name on the receipt and keep it in your records. You can't claim VAT on the cost of entertaining, or set it against tax.

**Travel and subsistence.** You can claim for travel, accommodation and food when you're away from home, as long as you're on a business trip. You can't claim for travel to your regular place of work.

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**This isn't a complete list, so if there's another expense you think you may be able to claim, just ask us and we'll tell you whether it's allowed.**





## Notes

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Whatever your financial needs, our team of chartered accountants and business advisors is committed to securing your future, and helping you reach your goals.

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**Committed to you.**

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