

How to be a Contractor Limited Company

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How to be a (Private) Limited Company

This 5 part guide will simply and concisely take you through:

1. Thinking, research and planning. What is the purpose of your Limited Company?
2. Creating and setting up a Limited Company
3. Structuring the Limited Company
4. Preparing to trade through your Limited Company
5. General advantages of running through a Limited Company

1.0 Thinking, Research & Planning

Quite often, there is a period of thinking and planning. You may have had a conversation with a colleague, friend or someone who is already operating through a Ltd Co who may have suggested it as a good idea. It's at this point you need more information and above all facts to help make a decision beyond your initial doubts.

This phase is the most important as it's a decision you don't want to take lightly and certainly the benefits should outweigh any costs (principally time and effort).

Hopefully this guide can answer most of the basic questions.

What is the purpose of forming a Limited Company?

The first key decision to make is whether it will be right for you or not. You need to take a medium to long term view.

There are certainly financial advantages to be gained from operating through a Ltd Co but it may not be right for everyone. Each circumstance needs to be assessed on its merits and objectives.

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What should I have decided before forming a Limited Company?

Here's a general checklist:

1. The company name
2. What the company is going to do
3. Who will be the shareholders?
4. How much money or other assets will each shareholder invest?
5. What class of shares are the shareholders going to hold?
6. Who are the directors going to be?
7. Where will the registered office be?

2.0 Creating and Setting up a Limited Company

Once you have made the decision, the next step is to create and get your new Ltd Co operational. The process of doing this can be done using the Company Formations Made Easy service.

“ The cost of setting up a Ltd Co through Company Formations Made Easy is only £14.99 + VAT. ”

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What you will need to do:

1. First you need to choose a name.
2. To check whether or not that name is available go to www.companyformationsmadeeasy.com and then enter your required company name into the search feature.
3. With your company name chosen you then need to select your required package.
4. Make payment for your required package.
5. Enter and submit your details via the online application form.

Upon receipt of payment your company will be created **within 3 hours** (if submitted before 2pm on the same day) or the next day if after 2pm. You will be issued with the following documents in electronic format (pdf):

- **Articles & Memorandum of Association**
These form the company's constitution (rules & regulations).
- **Company Incorporation Certificate**
This is like the company's birth certificate. Your company is its own moral entity with a separate legal existence from you as an individual.
- **Share Certificate**
This shows the name of all shareholders, the number of shares issued and their nominal value.

3.0 Structuring the Limited Company

Shareholders

The Ltd Co will be owned by its shareholders. They are the legal owners and beneficiaries of any profits available. Likewise, they are also liable for any losses incurred. You will need to decide on the number of shareholders and what class of shares they will hold.

The minimum number of shareholders to start a company is one.

Directors & Company Secretary

Directors are appointed to manage the company and do not have to be shareholders.

A Ltd Co can be started with just one director and there is no longer a need for a company secretary although one can be appointed if you want. The director must be a natural person and their minimum age must be 16.

Share Classes

There are numerous classes of shares which include:

1. Ordinary Shares
2. Preference Shares
3. Cumulative Preference Shares
4. Participating Preference Shares
5. Redeemable Preference Shares
6. ABC Shares

Each of these classes have different rights and it is advised you take professional advice before deciding. However, the most common type of share is 'Ordinary'.

Registered Office

It is compulsory for a Private Ltd Co to have a registered office at all times although this address needs to be the place at which the company conducts its business.

Options for a registered address:

- Own home address
- Office address
- Virtual address
- Your accountant's office address

4.0 Preparing to Trade Through your Limited Company

Once the formalities have been dealt with, you will need to prepare to trade. In order to do this you will need to do the following:

Open a Business Bank Account

It is essential this is done as any business transactions must be transparent and clearly distinguishable from your own personal transactions.

Once the bank account is up and running, you should be issued with a business bank debit card, online access and commercial card.



VAT Registration

You will need to decide whether to register your new Ltd Co for VAT.

Bookkeeping & Accounting Process/Service

You will need to put in place a bookkeeping and accounting process. Remember, by creating a Ltd Co you will create minimum compliance responsibilities and obligations as stipulated by the Companies Act of 2006.

These include (but are not limited to):

- Preparation and submission of annual statutory accounts to Companies House
- Preparation and submission of the confirmation statement (CS01)
- Preparation and submission of annual company tax return to HMRC
- Produce board minutes and resolutions
- Produce dividend documentation if any are declared

Filing Deadlines and Fines

The deadline for filing the CS01 and annual statutory accounts depends on your company's year end type of company.

For a private Ltd Co, if the current accounting period began on or after the 6th April 2009 then the company must submit annual statutory accounts within **NINE months** after the end of the accounting period.

Failure to meet this deadline will result in the following automatic penalties by Companies House (as of 2012):

Period late	Private Ltd Co penalty (£)
Up to 1 month	150
1 - 3 months	375
3 - 6 months	750
More than 6 months	1,500

HMRC have a separate late filing and fine system.

5.0 General Advantages of Running Through a Limited Company

- Perhaps the main advantage is Private Limited Company's come with Limited Liability. This provides shareholders with legal protection against creditors in the event of liquidation, insolvency or bankruptcy. Only the assets of the Limited Company can be compromised in such an event and any creditors (people/ organisations the Limited Company owes money to) cannot make a claim to the shareholders personal assets.
- In most cases a more tax efficient way of working.
- You can claim a wider range of expenses through your company - refer to our **FREE guide to expenses** or scan the QR code below:
http://www.aidhanfinancial.com/Accountancy/what_expenses_can_i_claim.pdf
- Enlisting onto the flat rate VAT scheme potentially reaps further financial benefits.
- A wider opportunity for tax planning.
- If you hire Aidhan Accountancy to look after your accounting, bookkeeping and tax all your compliance, administration and tax planning is dealt by us leaving you to concentrate on your business/profession.



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Disclaimer:

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