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A GUIDE TO STARTING UP A LIMITED COMPANY

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This guide assumes that you have made a decision to become a Limited Company as opposed to operating as a Sole Trader/Self Employed. If you are not sure about the difference, read our “A GUIDE TO CHOOSING BETWEEN A LIMITED COMPANY AND SOLE TRADER”.

Below is the process you will need to go through to become a Limited Company. It is possible to do all this yourself, but of course if you want peace of mind you could use the RIFT Accounting service to set it up for you.

See also “A GUIDE TO YOUR RESPONSIBILITIES AS A LIMITED COMPANY” which you may find useful. This explains what you need to do every year to satisfy Companies House and HMRC filing requirements.

STEP 1

REGISTER YOUR COMPANY AT COMPANIES HOUSE

You have to register your Limited Company at Companies House and send them returns every year. To do this you will need to decide the following:

- Your Limited Company name. You need a company name which is not in use by anyone else. Go to Companies House here: www.companieshouse.gov.uk Type in your proposed company name and see if it is available. At the same time it would be a good idea to check that the name is also available as a web address (domain name). You can do this here: www.nominet.org.uk
- Your Limited Company official address. It must be in the UK. All official Companies House documentation will be sent here. If this is your home address, please note that this will be on public record and available for anyone to view.
- The names and number of Shareholders. They will own the company, not the Directors. If you are a very small company, you could be the Director and the only Shareholder. You need to decide how many Shareholders you want, and what proportion/number of shares you wish them to have. Don't forget that if you are a minority Shareholder you will not have total influence over decisions, such as dividend payments (share of the profits). You need to supply the full name, date of birth and addresses of all the Shareholders.
- The number of shares. You could issue just one share at £1 or 100 shares at £1 each. A single share counts as one vote, so if you divide shares 50:50 you will not be in a majority. The value of the share is just a nominal value. So, if the company had 100 shares at £1 and it was subsequently sold for £200,000, the shares would actually be worth £2,000 each.
- The names and number of company Directors. Company Directors are responsible for running the company. The Directors usually earn a salary, but unless they are Shareholders too, they cannot be paid dividends. They are legally responsible for making decisions for the benefit of the company and are likely to be your key senior managers. You need to supply the full name, date of birth and address of all company Directors.

When you have registered at Companies House (they make a charge for this), they will issue you with a Certificate of Incorporation and the Memorandum and Articles of Association (the rules of the company). The Certificate of Incorporation confirms the company legally exists and shows the company number and date of formation. The formation date is usually the start of the company's financial year.

STEP 2

SET UP A BUSINESS BANK ACCOUNT

You will need to keep all Limited Company transactions separate from your personal finances. When you have your Certificate of Incorporation you can go to a bank and set up a business bank account. If you want a loan from them, they are likely to need a full business plan as well as proof of incorporation.

STEP 3

TAKE OUT BUSINESS INSURANCE

If you are the only employee in your company and/or you employ only close family members, you do not have to have any business insurances. However, if you employ anyone else you are legally obliged to take out Employers' Liability Insurance. For a small company the cost can be as low as £100 a year. It is highly advisable to take out business insurance right from the start to protect yourself and your company. The other three key insurances are:

- Professional indemnity insurance.
- Public liability insurance.
- Directors and officers insurance.

For more detailed information, please read our "GENERAL GUIDE TO BUSINESS INSURANCE".

STEP 4

PROVIDE HMRC WITH COMPANY INFORMATION

When your company has been registered with Companies House, a Unique Taxpayer Reference (UTR) number will automatically be generated and sent to your registered address. HMRC will request information about your company, such as the full company name, the main trading address, what kind of business you are in and your financial year accounting dates. You need to supply this information within three months of starting your business. They will also tell you how to set yourself up online in order to submit company tax returns.

STEP 5

REGISTER FOR SELF ASSESSMENT PERSONAL TAX WITH HMRC

If you are a Director of the company (see Section 1 above), it is best to register for Self Assessment and fill in a personal tax return every year, even if you are on PAYE and don't take any other company benefits. You can register online and will receive a Unique Taxpayers Reference (UTR) number for your personal tax. Once this is received you can complete Self Assessment tax returns online.

STEP 6

CHECK THAT YOU CAN WORK FROM HOME

If your business is based at home you may need to inform other people about it. Generally, you should not have to pay business rates for minor business use of your own home if:

- You use a small part of your home for your business (for example, you use a bedroom or study part of the day as an office), and
- Members of the public or business clients do not use your home to collect goods or receive your services, and
- You do not employ other people to work at the premises, and
- You have not made alterations that would not usually be associated with a home (such as converting a garage to a hairdresser's salon or installing a hydraulic car lift).

If you think business rates could apply, you need to contact your local council and they should advise you. If you alter your premises specifically to accommodate your business activities you will need to ask for planning permission.

If you keep stock or have equipment you will need to inform your insurers, who are likely to want to change your home insurance policy to a business one. It's also probably a good idea to let your neighbours, landlord or mortgage provider know too.

STEP 7

REGISTER FOR VAT

(IF APPLICABLE)

You must register for VAT with HMRC if your business turnover becomes more than the current threshold, or when you know that it will be over that amount. Most businesses can do this online at the HMRC website. When you register, you will be sent a VAT registration certificate that confirms your VAT number and when to submit your first VAT return and payment. For more detailed information, please read our "GENERAL GUIDE TO VAT RETURNS AND PAYMENTS".

STEP 8

REGISTER AS AN EMPLOYER WITH HMRC

(IF APPLICABLE)

If a Limited Company is paying permanent and part-time workers (including yourself), you will need to operate a PAYE (Pay As You Earn) scheme through a payroll system. You will need to register as an employer with HMRC, which you can do online. You also have to let HMRC know when a new employee joins or their circumstances change. Some staff are exempt from PAYE payments if they are on a low salary, but you will still have to keep payroll records. Our "GENERAL GUIDE TO VAT RETURNS AND PAYMENTS" explains all the things you will need to do as an employer. Please also check the National Minimum Wage Rates, and remember that from April 2017 you will need to contribute towards your staff's Workplace Pension.

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