



A GUIDE TO FORMING YOUR NEW LIMITED COMPANY

Introduction

A private company limited by shares is the company that is most commonly referred to as a limited company. A limited company is a separate legal entity to its members and must have its own bank account.

Share capital

The shareholders (also known as members) of a limited company are its owners. The share capital is the member's investment in the business and this investment is locked into the company until the shareholder sells their shares or, in limited circumstances, when the company buys them back.

When you form your limited company, you will need to decide upon how many shares are issued and who receives them. Remember that shares represent part ownership of the company and entitlement to dividends, so think carefully about who you allot them to.

At HRBS, for new small companies, we recommend forming the company with £100 of issued share capital as this money has to be paid into the company and stays in the company. Any other initial funds the company needs can be loaned to the company and repaid at a later date.

The company's officers

The shareholders appoint the officers (directors and if required, company secretary, who is not the sole director) to run the company on their behalf. Whilst for many new small companies the shareholders are often also the directors, it is not a requirement.

Companies are legally required to have officers in place at all times, and their names and addresses must be on the company's registration documents. If officers resign or new ones are appointed, or if their personal details change, the Registrar of Companies must be informed straight away. This can be done either by completing the relevant Companies House forms or online by an authorised representative of the company.

The director, or directors, must manage the company's affairs in accordance with its articles of association and the law. Certain responsibilities apply to all directors, whether executive or non-executive, and to all types of company whether trading or not. The directors' duties are covered extensively in the Companies Act 2006.

Guidance for company directors as summarised in a Ministerial statement by Rt. Hon Margaret Hodge MP –

- 1) Act in the company's best interests, taking everything you think relevant into account
- 2) Obey the company's constitution and decisions taken under it
- 3) Be honest, and remember that the company's property belongs to it and not to you or to its shareholders
- 4) Be diligent, careful and well informed about the company's affairs. If you have any special skills or experience, use them
- 5) Make sure the company keeps records of your decisions
- 6) Remember that you remain responsible for the work you give to others.
- 7) Avoid situations where your interests conflict with those of the company. When in doubt disclose potential conflicts quickly
- 8) Seek external advice where necessary, particularly if the company is in financial difficulty



Taxation

Limited companies pay corporation tax on their business profits and other income (interest etc) which is due 9 months and 1 day after the company's accounting period. The company has to submit a corporation tax return together with accounts and computations of the company's tax liability within 12 months of the end of the accounting period. For corporation tax, an accounting period cannot be more than 12 months. Where accounts are prepared for more than 12 months, two company tax returns are required.

Directors are employees of the company and if they are receiving salary and/or benefits, the company will need to operate a PAYE scheme. At HRBS we usually recommend a low salary/high dividend method of withdrawing profits from the company and operate the PAYE scheme on our clients' behalf. This depends upon the company structure, the nature of its business and the directors/shareholders cash requirements.

The director/shareholder will be taxed on their income when it is paid by the company. This contrasts to a sole trader (or member of a partnership) who is taxed when the profit is earned irrespective of whether or not they have withdrawn the funds from the business. A sole trader (or partner) also pays Class 4 National Insurance Contributions on their profits. Limited companies do not pay National Insurance Contributions on their profits.

It is therefore possible for the director to plan their income from the company so as to minimise tax and National Insurance. It can also mean that there are more funds available to reinvest into the company if the director/shareholder does not withdraw the maximum available.

Dividends

Dividends are the distribution of the company's after tax profits to its members and are paid to the shareholders in the proportion of their shareholding. A company cannot pay dividends unless it has sufficient profits after allowing for the company's corporation tax bill on those profits. Any amount paid that exceeds the dividend available will be void and treated as a loan to the recipient.

Accounts

The company and its directors are legally required to keep accounting records and prepare accounts in a pre-defined format. The accounts must be submitted to Companies within 9 months of its year end. Late filing penalties will be automatically issued if the accounts are submitted late.

The accounts when filed at Companies House become accessible to the general public. Small companies have the option to submit abbreviated accounts at Companies House, which disclose the minimum information required by Company law. Shareholders and HM Revenue & Customs must receive the complete set of accounts with all the notes and disclosures required by Company Law.

Annual Return

The company must file an annual return at Companies House otherwise the company will be struck off the register of companies. An annual return is issued by Companies House on each anniversary of the company's formation and contains the details of the directors, shareholders, share capital and company service addresses. The annual return does not contain any accounts information other than the issued share capital.



Company name

In theory, you can choose whatever name you want for your company, but there are a few exceptions:

- If it is identical to, or too similar to an existing name
- If it is offensive, or contains a word or words, the use of which would be a criminal offence
- If it uses sensitive words or expressions, as determined by the secretary of state for trade, or which may suggest a connection with the government .

If you adopt a name which misleads the public into believing that your business is that of another business - for example, trading as a department store under the name 'Harrods' - then you may face a legal action for 'passing off' by the person whose business you have affected. Registration of a name by Companies House is no guarantee that you are safe from such an action.

All company names must end with the words 'Limited', 'Unlimited', 'Public Limited Company', or their abbreviations or Welsh equivalents.

We will check your proposed company name for availability and suitability as part of our company formation service.

Registered Office

The registered office is the address to which letters and reminders from Companies House, the UK tax authorities and other governmental departments will be sent. The registered office can be anywhere in England and Wales (or Scotland if your company is registered there).

The registered office must always be an effective address for delivering documents to the company, and to avoid delays it is important that all correspondence sent to this address is dealt with promptly. A PO Box will not be accepted as registered office address. If a company changes its registered office address after incorporation, Companies House must be notified.

If the company is involved in any legal action official papers will often be served at the registered office address.

Bank account

The company must have its own bank account as it is a separate legal entity from its shareholders and directors. The bank account cannot be opened before the company is formed and can take several weeks to be opened, cheque books and cards issued etc.



INFORMATION REQUIRED TO FORM YOUR NEW LIMITED COMPANY

Please supply in writing (email preferred)

Proposed company name:

For each director:

Full name of director:

Director's date of birth:

Director's Passport Number:

Director's town of birth:

Director's Full Home address:

Details of any other companies of which they are/have been a director:

Share capital required (most companies start with £100):

Initial shareholders: name and address

Initial shareholdings: number of shares

Full name of company secretary (if required):

Date of birth of company secretary:

Passport Number:

Registered Office address (home address is most common)

For ID protection Companies House require 3 of the following for director, company secretary and initial shareholders:

Town of Birth:

Last three digits of home phone number:

Last three characters of NI number:

Last three digits of passport number:

Mothers maiden name:

Fathers first name:

Eye colour:

Your company formation documents can be emailed to you within a day (Monday to Friday) or a few days if you have ordered a hard copy.