

Companies House The Pros and Cons of Incorporating

When a business reaches a certain point in its life cycle its owners may consider whether to change the present business status as a sole trader or partnership, into a Limited Company.

Some businesses start up as Limited Companies due to the nature of business to be undertaken or the mix of owners and their requirements.

There may be certain financial and control advantages to having a Limited Company, and there are clear administration disadvantages.

ADVANTAGES

- There is a limited degree of protection from personal prosecution as the employee/director of a limited company, as it is the limited company that is trading (although you can still be sued in certain circumstances i.e. Health and Safety or negligence).
- If operating a payroll system there is the protection of SMP, SPP, SSP, and redundancy for employees (technically a director cannot be made redundant if the company is non-trading.)
- There is currently no National Insurance on dividends, although since April 2008 there has been corporation tax on the profits before dividends.

The first band for tax of a limited company is between 21% (2010/11) and 20% (2011/12).

As an employee of the Limited Company directors would receive a monthly salary.

For example, a salary of say £7000 just above the tax free will attract a small amount of PAYE and NI. The remainder of any income could come from declaring dividends on a regular basis which are subject to a tax of between 21% (2010/11) and 20% (2011/12).

The directors would have to be mindful that the business does not fall within any area of IR35, which would mean that this type of distribution of income would be deemed incorrect.

DISADVANTAGES

- A Limited Company is a legal entity and any relationships with it must be strictly adhered to as a Shareholder/Director/Secretary and employee.
- Running a Limited Company requires greater care and awareness of the implication of certain decisions, and if the owner of an unincorporated business is not prepared to keep a close eye on accounts and filing, this is not a good route to take.
- A separate Bank Account must be maintained.
- PAYE/NI taxes are paid every 19th of each month (Quarterly can be arranged).
- Accounts have to be prepared to calculate the Corporation Tax that is payable 9 months and 1 day after the accounting period.
- Detailed Accounts and supporting schedules and data have to be submitted to the Inland Revenue.
- Copies of the accounts must be submitted to Companies House within 9 months of the end of the Accounts period. Fines are large and out of proportion when accounts are filed late and start at £150.
- An Annual Return must be filed with Companies House (present annual cost £14.00 for online filing and £30 for paper filing)
- For PAYE there are annual Forms (P35, P14s, P60s and P11D) for employee details, benefits and Taxes paid.
- It is preferable not to operate the Limited Company on overdrafts and loans, as Directors would generally be required to give guarantees.
- Capital Gains legislation is not as beneficial to a Limited Company.
- Additional administration time and costs keeping more detailed records.
- Additional Professional Fees.