

# Your Practice Name

Your address  
Your address  
Your address  
Your address

Date

Client Name  
Client address  
Client address  
Client address  
Client address

Dear

We would like to discuss the possibility of changing your present business status, and would welcome a meeting to discuss further the points outlined below.

## **Incorporate or stay as you are?**

Should you consider whether to change your present business status as a sole trader or partnership, into a Limited Company?

There are certain (in particular TAX SAVINGS) advantages.  
There are certain (in particular control and administration) disadvantages.

- **ADVANTAGES**

There is currently no National Insurance on dividends, although since April 2004 there has been a 19% tax.

A Limited Company with taxable profits of £300,000 are

First level of taxable profits	£10,000	nil%
Next level of taxable profits	£40,000	23.75% Marginal
Rate		
Next level of taxable profits	£250,000	19%

As an employee of your Limited Company you would pay yourself a monthly salary. For example a salary of at the top of the tax free band, which is the personal allowance before paying tax, plus the 10% band, bringing you to an amount of £6,500, which does attract a small amount of PAYE and NI. The remainder of your income could come from declaring dividends on a regular basis.

You have a certain degree of protection from personal prosecution if you are the employee/director of a limited company, as it the limited company who is trading (although you can still be sued in certain circumstances i.e. Health and Safety). If you are a partner or sole trader you have no protection, and are personally liable.

- DISADVANTAGES

1. A Limited Company is a legal entity and your relationship with it must be strictly adhered to as a Shareholder/Director/Secretary and employee.
2. A separate Bank Account must be maintained.
3. PAYE/NI taxes are paid every 19<sup>th</sup> of each month (Quarterly can be arranged).
4. Accounts have to be prepared to calculate the Corporation Tax that is payable 9 months and 1 day after the accounting period.
5. Detailed Accounts and supporting schedules and data have to be submitted to the Inland Revenue.
6. Copies of the accounts must be submitted to Companies House within 10 months of the end of the Accounts period.
7. An Annual Return must be filed with Companies House (present annual cost £15.00 for online filing and £30 for paper filing)
8. For PAYE there are annual Forms (P35, P14s, and P11D) for employee details, benefits and Taxes paid.
9. It is preferable not to operate the Limited Company on overdrafts and loans, as Directors would generally be required to give guarantees.
10. Capital Gains legislation is not as beneficial to a Limited Company.
11. Additional administration time and costs keeping more detailed records.
12. Additional Professional Fees.