Running a Limited Company

A practical guide for business owners

ROBSON / LAIDLER
ACCOUNTANTS

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Introduction

A practical guide to running a limited company

Whether it's to earn more money or to do more of the work they love, many people are taking control of their careers and starting a new business. Find out how you can do the same with our guide to starting and running your own limited company.

Benefitting business owner-managers

We consider the UK's small and medium-sized enterprises (SME) sector to be the lifeblood of the economy, which is why we specialise in providing a comprehensive range of accountancy, legal and business services to this thriving portion of UK businesses.

Between them, our members serve tens of thousands of owner-managed company clients and counting. This means we are well equipped to offer a broad range of services to new and existing company owners covering any aspect of running a limited company, including:

> Choosing the right trading option and company formation
> Managing the risks to your business
> Taxation
> Financial planning
> Helping you succeed and grow

Through promoting quality standards and providing regular training on technical subjects, we ensure that our members have the tools to offer an exceptional level of service to their limited company clients, in turn helping to nurture success within this vital sector.

"Starting a new business is exciting, and can offer so much opportunity and fulfilment, professionally, financially and personally. That is why it is important to take informed decisions from the outset. Decisions taken now that can and will impact on your future.

The Owner Managed Business Group is a group of experts, all from UK200Group firms, who specialise in advising owner-managed and smaller limited companies. To help you optimise the chances of your new venture succeeding, we have used our shared knowledge and expertise to bring you this practical guide to running a limited company."

James Abbott Chair of the UK200Group Owner Managed Business Group

About the UK200Group

The UK200Group is the UK's leading professional association of quality assured chartered accountancy and law firms. With a combined turnover of c£350m, we have over 4,700 partners and professional staff in the UK, and global links in c80 countries, supporting 150,000 SMEs and private clients. We operate as a collaborative and growth orientated group of like-minded professional practice firms across the UK who are committed to quality, and leveraging their collective strength, knowledge, and professional niches to grow better together for the benefit of member firms and clients.

Please note: This guide is based upon tax rates applying to the 2025/26 year, is general guidance only and is current as of June 2025. You must seek appropriate advice tailored to your own individual circumstances before taking or refraining from any action. Your trusted UK200Group member firm will be able to assist with any advice you need.

Is a limited company right for me?

If you are reading this, the likelihood is that you are considering joining the growing community of entrepreneurs who have chosen to start their own business, or you may be seeking to grow your existing business. According to Companies House, there are around 2.1 million actively trading limited companies in the UK. Over 500,000 new companies are incorporated each year, so you won't be alone!

While trading via a limited company can offer many benefits, running one comes with a lot of responsibility. Here are some of the key factors to consider:

Protection from business risk

This is not the first benefit most business founders think of when considering incorporating a company, but it is one of the most important. A limited company is a separate legal entity from you, the business owner, meaning your personal assets are separated from the business's assets, and you are not personally liable for business debts. You can learn more about business risk on page 5.

Access to finance and investment

If your plan is to grow your business, you will find most investors and lenders will only provide funding to limited companies. There are many reasons for this, including the flexible ownership structures that are possible with limited companies. It is also because your role as a director running a limited company is regulated by the Companies Act, which provides investors with greater confidence and protection over their investment.

Greater flexibility over your personal remuneration

You may have been told that you pay less tax when you set up a limited company. This can be true in some individual circumstances. However, trading via a limited company does provide much greater flexibility with how you pay yourself than you may be used to when employed. As well as paying yourself a salary, you also have the option of paying a dividend out of company profits. Plus, you can choose to invest company funds in a pension. You also have greater flexibility over when you can pay yourself. This can help with being more tax efficient. Pages 21 and 22 discuss this topic in greater detail.

Duties and responsibilities of being a director

You will probably be both an owner, or shareholder, and a director of your new limited company. These roles, shareholder and director, are different. Directors have many responsibilities and duties set out as legal obligations in the Companies Act. Failure to meet these obligations could result in prosecution, fines, disqualification from being a director and even, in the very worst cases, imprisonment. Your responsibilities as a company director are outlined throughout this guide.

Your business and its future

Separating yourself from your business by incorporating a company means it can grow beyond you, the founder. At the beginning, your passion and personal brand, and of course expertise, are important for business success. However, over time, you may wish to grow the business through additional investment and by building its brand. Eventually, you may wish to extract some shareholder value or even exit your business. Incorporating a company provides you with many more options for business growth and exit.

What are my trading options?

To launch your new, or grow your existing business, you have four established trading options to choose from:

> **Sole trader**
> **Partnership**
> **Limited liability partnership (LLP)**
> **Limited liability company**

You may have heard that the trading option determines how much tax you pay. While this is one factor that will influence your choice, the decision will principally depend on the nature of your business and the level of risk you face.

So what do we mean by this? Let's look at some examples:

If you are launching a craft-based business, creating decorative products in a home studio with little scope for risk or harming customers and modest sales in the low tens of thousands, it makes sense to be a sole trader.

In contrast, you may have invented a widget that plays a vital role in high-tech, life-saving medical equipment and have raised several hundreds of thousands of pounds to build a plant in a rented factory where you employ dozens of people. In this context, a limited company would be sensible.

One major distinction between these two is the possible risk you, as a business owner, may face. How likely is it that something could go wrong that your insurance would not cover? What would happen if an investor or lender demanded immediate repayment of any debts?

Another distinction is access to finance and services

As a sole trader, you may find it difficult to access serious investment, or to secure equipment and property leases. You are the business; there is no other entity between you and your customers. That means you are personally responsible for your business's debts and liabilities including the costs and outcome of any legal action, be it over faulty products or negligence.

A limited liability company is a separate legal entity. As the name suggests, assuming no fraud has taken place, you are not personally liable for financial losses and your personal assets are protected. Being separate from you can make it easier to source investment, because structuring the ownership of a limited company is more flexible. Many customers and service providers will only do business with limited companies.

It is not a simple decision. Making a wrong choice could, at its worst, mean losing not just your livelihood but also your home. It could also be that your business may suit the specific benefits and risk protection that partnerships and limited liability partnerships offer.

Seeking advice from a professional adviser, such as an accountant and lawyer, will help you understand the risks and opportunities you face so you can choose the trading option that's right for you, your business, and its future.

How to start your limited company

Having consulted a professional adviser such as your accountant and lawyer and reaching the decision that a limited company is the best option for your business, the next stage is incorporation and preparing to trade. There are several steps to this process that will benefit from expert legal, accounting, and tax advice.

Choose your trusted advisors

You don't have to appoint an accountant and lawyer. However, you may struggle to keep up with your legal responsibilities as a director without an accountant and may miss opportunities to benefit from tax efficiencies. Seeking expert legal assistance from a lawyer when starting out helps futureproof your business as you grow.

Incorporate your company

Using free generic documents, it is possible to incorporate a company online in about twenty minutes and for around fifty pounds. However, as will become clear from this guide it is worth investing in professional advice at this early stage. Experience shows uninformed decisions made now can take a lot of time and money to unpick a few years down the line.

To incorporate your company, you'll need to have established:

> A company name and address - (your registered address)
> A director (yourself) and your home address, which is compulsory but not made public
> Details of company shares
> Your company's SIC code

In addition, you'll need to provide details of people with significant control over your company. You'll also have to create a memorandum and articles of association, in other words, the company's written rules that regulate the relationship between directors and shareholders. You can use templates that can be found on Gov.uk but model versions may not be suitable e.g. when you are a sole director. However, this is where advice from your trusted advisers is especially valuable.

Register with HMRC

Registration with HMRC is required for you to set up a payroll, pay your company taxes and register for VAT. This is explained in detail on page 11.

Set up a business bank account

Your limited company is a separate legal entity to you personally, so it needs its own bank account. You can find more about this on page 17.

What is a registered address, and which one should I use?

Your company's registered address is an important location as it is where official correspondence will be sent. It appears on your invoices, website, email sign off, and stationery. You cannot use a PO box and if you do not yet have trading premises, you may prefer to keep your personal address out of the public domain. It is common to use an advisor's address as your registered office and a place for receiving documents, so discuss the best location with your accountant or lawyer.

What is a shareholders' agreement?

As its name suggests, a shareholders' agreement regulates the relationship between shareholders. Unlike your company's memorandum and articles of association, it is a private document. You are not required to have a shareholders' agreement. However, if there is more than one shareholder, it is advisable. It ensures you and your co-owners understand and agree the principles by which you will act and conduct yourselves over matters of ownership and key decisions. Your shareholders' agreement will cover two important areas: ownership and shareholdings, and management and directors' decision making. Your public articles of association and private shareholders' agreement are your company's rulebook that govern how the ownership and owners of the company are managed. The two documents together are often called the 'constitution'.

Should I have a shareholders' agreement?

When answering this question, it helps to understand what could happen if you don't have a shareholders' agreement. Company law includes many default options that take effect if there is no agreement. It allows the transfer of shares to anyone. You may not wish your fellow shareholders to transfer their shares to someone without having a say, or at least having the option of buying them. Let's say you want to exit the business by selling it. Company law says a 20% shareholder cannot be compelled to sell their shares, and they can therefore veto the sale of entire share capital and block the exit of the other 80% shareholders.

A key section of a shareholders' agreement is a dispute resolution section. It says what will happen if shareholders disagree and there is no other mechanism. For example, a shareholders' agreement might say one party has a casting vote, or a third-party dispute resolution solution is found, or even that one party might buy out the other, and the agreement will explain how these mechanisms will work. You will have to agree what happens under many what-if scenarios with your fellow shareholders at the outset.

What should my shareholders' agreement include?

While best practice suggests a range of scenarios that your shareholders' agreement should cover, it is important to speak to your trusted adviser. Every business and the people in it have different needs that will change over time. The agreement may include sections on what happens if a shareholder:

> Wants to leave and sell their shares and the rest do not
> Does not want to sell their shares and the rest of the shareholders do
> Passes away or suffers serious injury
> Goes bankrupt
> Sets up a competing business
> Breaches the obligations in the agreement

Example

You and a friend each own 50% of your company, and both of you are directors. What happens if one of you wants to make a significant investment in a new item of plant, or hire a new employee, business but the other director disagrees? Because you both own 50% and are both directors, neither of you can overrule the other - you are in deadlock. That may lead to a poor working relationship and stifle the business, which benefits no one.

What are share classes and do I need them?

Companies can have different types of shares with different rights. The rights may cater for whether owners of those shares can vote or are entitled to a dividend. Different share classes are common when you have investors, as investors may expect certain priority rights on their shares in exchange for their investment. The default option is to have ordinary shares only, with all ranking equally. However, your trusted adviser can explain where different share classes would benefit incorporation. The details of these shares and how they work should be included in your company's constitution.

Employment Contracts

Thinking of hiring staff? You need employment contracts

Many new companies start with just the founders working in the business. Some businesses need additional employees in place from the outset. Other businesses expand quickly and soon have a pressing need to hire new staff. Whichever of these scenarios applies to your business, it is always a good idea to have appropriate contractual documents drawn up for both founding staff members and new hires.

Whilst there is no legal obligation to have written contracts of employment, employers are obligated under section 1 of the Employment Rights Act to provide new employees with a written statement of the terms of their employment within two months of starting. This is known as a section 1 statement. That statement must set out certain key contractual terms specified in the legislation including, but not limited to, job title, salary, hours of work, holidays and notice period. There is no distinct right to claim for compensation against an employer that fails to provide a section 1 statement. However, a claim for limited compensation for this can be brought alongside a substantive claim such as unfair dismissal, unlawful deductions from wages or discrimination.

Most employers will fulfil that obligation by providing written contracts of the employment containing the necessary details under section 1. Beyond complying with this obligation, there are many other advantages to using written contracts from the beginning of employment and we summarise some of these.

What is an employment contract?

An employment contract is a legal agreement between your company and an employee. It is designed to capture the terms on which you are employed and sets out the various obligations that the individual must comply with, as well as their contractual rights and entitlements.

When companies are started by friends, as they often are, many issues like salary, benefits, and working hours are simply discussed informally and not recorded in writing. That informality can later give rise to ugly contractual disputes if there is any uncertainty over what was originally agreed. A written contract can help avoid such disputes by clearly setting out the agreed terms from the start.

They can also give your business very useful protections by imposing more extensive obligations on employees than the basic obligations implied by common or statutory law. For example:

> Longer notice periods
> Comprehensive confidential information obligations
> Intellectual property protections
> Post-termination restrictions to protect the business from competing activity.

If you need to engage staff to help with the running of the business, you may also wish to consider what the ideal employment status would be for your business model. As discussed above, one option is to engage them as employees. However, individuals are also sometimes engaged on a more casual, flexible and often more cost effective basis as workers or self-employed contractors.

There are advantages and disadvantages to all three statuses, and you should talk to your trusted advisor if you are unsure.

What are employment policies?

It is also a good idea to have employment policies in place that will define how employees are to behave in the workplace. They help you enforce company rules and hold employees to account where rules are broken.
There are some policies and rules that an employer is under a legal obligation to have in place, such as:

> Privacy notice that sets out how your business collects and processes the personal data of its staff
> Health and safety policy, if the business has more than five employees
> Set of rules on how grievances and disciplinary processes are handled, which is part of the section 1 statement obligation mentioned above.

Beyond this, there are many other policies that your new business might consider useful, such as an equal opportunities policy to help prevent and mitigate against discrimination claims, as well as rules on issues such as holidays, sickness absences, bonuses and business expenses.

Policies are normally non-contractual documents, which makes it much easier for you to amend and update them in the future, as opposed to including everything in the employment contract, which you then need the employees consent to amend.

Registering your company with HMRC

As soon as you have incorporated, you'll be able to register your company with HMRC. This is a quick and simple process. It's also a necessary one as it's the only way for you to pay company taxes. It's best to get this out of the way early, as failure to register your company with HMRC will incur a fine. It can also take a while for HMRC to complete some processes such as VAT registration.

Why you need to register with HMRC

Registration with HMRC is essential for your company to pay:

> Corporation Tax (CT)
> Value Added Tax (VAT)
> Pay As You Earn (PAYE)

A number of forms need to be filed during the company year, including Corporation Tax returns, VAT returns, P11Ds and end of year submissions. Much of this is now completed online.

How to register with HMRC

Shortly after you have incorporated, HMRC will send you a letter containing your company's Unique Taxpayer Reference (UTR) and form CT41G, providing information on Corporation Tax for new companies. You must register with HMRC for Corporation Tax within three months of starting up your business, and your UTR number is required for you to register.

If your taxable sales are likely to be above a qualifying threshold, which is £90,000 at the time of writing, then you must register for VAT. This is a separate and additional process to registering for Corporation Tax.

Similarly, if you plan to pay yourself a salary and employ other people, then you will need to register as an employer to obtain a Pay As You Earn (PAYE) reference number to run your first payroll.

You can choose to register for CT, VAT and PAYE with HMRC yourself. But HMRC does allow tax agents and advisers – which usually means your accountant - to use its services on behalf of their clients. This often includes using your accountant's or solicitor's address as your company's registered office address, where HMRC will send copies of all official documentation if asked. To help minimise your administrative load, and guarantee that deadlines for payments and submissions are met, we recommend that you let us take care of all these processes for you.

Good governance - your duties as a director

A company is a separate legal entity from you, even if you own some or all of its shares. As discussed on page 5, one primary purpose of trading via a limited company rather than as a sole trader or partnership is for you to have a separate legal entity between you and your business.

As defined in the Companies Act, your primary duty as a director is to act in the best interests of the company, and you cannot prefer yourself over the company. For example, if the company owes money to creditors such as suppliers, and also owes money to directors and shareholders, your duty as a director is to put the company first and pay the creditors, not yourself. Maintaining books and records is a key responsibility and good governance. Your accounting software will keep most of the records required, if you ensure it is kept up to date through efficient bookkeeping. To be compliant with Making Tax Digital (MTD), your company must keep digital records for VAT. Currently, MTD for Corporation Tax doesn't come into force until 2026.

Using a limited company should mean that in most cases, your personal assets are protected from business liabilities. However, if the company becomes insolvent, broadly defined as the company not being able to pay its debts as they fall due, there is potential for you being personally liable, as a director, for the company's debts. This can be the case if you decided to carry on trading when there was little prospect of the company's financial position improving.

We have included more about this important aspect on page 36 of this guide.

What you need to budget for

Once your company starts, you may find yourself receiving more income than when you were employed, and some may come in large chunks as your customers pay their invoices. Treat all your income with caution as it arrives in the company bank account. This money is not yours, but your company's. It is essential to keep your money separate from your company's money.

You first need to remember that your limited company revenue is pre-tax, and so you must hold a portion back for when Corporation Tax, Income Tax, VAT and National Insurance Contributions (NICs) become payable. If you are paying yourself a salary, you must set up a payroll and make monthly deductions for income tax, employee and employer NICs via PAYE (Pay as You Earn).

It isn't always easy to gauge exactly how much you should retain, but if you speak to your accountant, they can help you create budgets and management accounts. Alongside your accounting software, these will help you keep track of what you are spending.

From here on, we recommend that you make deductions from the company's income to account for costs incurred throughout the year, including:

Operational expenses

The cost of goods, services, supplies, employees, rent, utilities, rates, communications, IT, marketing, travel, subsistence, and other expenses all need to be paid by your company.

Holiday and sick pay

Running a limited company means making your own provision for time taken off for holidays and sickness. This could vary significantly between individuals.

Pension

Likewise, you have no employer paying into a workplace pension, so contributions into your own pension scheme are advised. Plus, there are usually major tax savings when you make pension contributions.

Professional fees

Part of your budget should be allocated to professional fees. This includes accountancy and consultancy fees, as well as contract reviews and professional advice from solicitors. These may seem costly at the time, but this expert input helps ensure that over the long term, and if something goes wrong, you keep hold of more of your money.

Business and protection insurance

You and your company will need a range of insurance policies to help protect business owners and their earnings in the event of a dispute or mishap. There are numerous policies, which we cover on page 14.
There are several variables that impact the income that limited company owners set aside for themselves. This needs to be measured, which is why we offer financial planning as part of our service.

Your insurance options

Trading via a limited company does bring certain risks. However, for a small portion of your company's income, you can protect yourself and your business against these risks. Below are a few insurance policies that we recommend you consider.

Business insurance

This covers a range of recommended insurances for limited company owners, including:

> Public liability insurance: To protect companies against claims made by third parties
> Business equipment insurance: To cover damage to or loss of business assets, such as computers and office equipment, or plant and machinery. Even if you work at home, your household insurance won't cover these assets.
> Employers' liability insurance: A legal requirement if you employ anybody through your company.

You can buy these insurances as a single package designed specifically for small limited companies.

Buildings and vehicle insurance

You will need insurance for your business premises and company vehicles as well. If you work from home, you may need specific home working insurance and should notify your domestic insurer accordingly.

Professional indemnity (PI) insurance

If a client decides to take action over a perceived error in your work, they could pursue your company and possibly you as the company director for damages. Professional indemnity (PI) insurance covers defence fees and potentially a pay out if negligence can be proven. If your business makes things, you can also take out product liability insurance.

Fee protection insurance

To protect your business from the risks of an HMRC enquiry, you can purchase tax investigation cover. The policy covers the costs of professional advisers should HMRC investigate your limited company's tax affairs.

Income protection insurance

This will come in handy if you ever suffer a prolonged period of illness and cannot work as a result. This provides a level of cover based on an estimate of your annual earnings.

Life insurance

Leaving employment means losing benefits including death in service that can support your family and/or dependants after you have passed. Purchasing life insurance provides a safety net for your loved ones in the event of such a tragedy.

How to prepare an invoice

Once your limited company business starts trading and selling your products or solutions to your customers, you will need to prepare invoices. Unless you take payment by cash or credit card, the likelihood is that you will invoice your customers for the products or services provided so they can pay you.

Do I need accounting software for my limited company, and what option is best?

Yes, because good accounting software is designed to make the process of keeping your books and records easier and more compliant. It will also prepare your company for when Making Tax Digital (MTD) becomes compulsory (see page 33). Talk to your accountant about which of the most popular platforms are best for your business.

What to include in your invoice

Your invoice needs to follow a very specific format. Failure to do so can sometimes result in the invoice going unpaid. In fact, you may find some customers use minor errors on an invoice as an excuse not to pay you at all - don't give them that excuse! The details that it needs to contain include:

> Your company name, address and contact details - include your company number and registered company address
> Invoice date and due date for payment
> The invoice number. which should be sequential
> Hours/days being billed for and hourly/daily rate
> Expenses recharged to the customer if applicable
> The total value that the above amounts to
> The amount of VAT charged and company VAT number
> Total invoice (gross) value
> Terms of payment.

You may wish to include your terms and conditions (T&Cs) of business on or attached to your invoices.

Terms and conditions (T&Cs)

T&Cs will form the legal contract between your company and its customers. Before you start trading, be clear about who your customers are. Where your customers are consumers, your T&Cs must comply with consumer laws and regulations and be written in plain English. If your customers are businesses, your T&Cs won't need to consider consumer regulations and laws and can be more business friendly. Also, ensure your T&Cs cater for what you supply: products or services (or both). You may supply combinations of products and services to both businesses and consumers, such as products requiring installation or software solutions. Legally, your T&Cs can go anywhere, they don't have to go on your invoices, provided they are sufficiently brought to the attention of, and accepted by, your customers. That means your T&Cs can be published online provided that customers are clearly directed to your website.

Working closely with your trusted adviser will ensure your T&Cs are compliant with consumer regulations, where required, and protect your business. Here are some of the sections your T&Cs should include:

> **Product specifications and scope of services:** It may sound obvious, but it is essential that you clearly identify the nature of your goods and services, the purpose, scope, and any warranties provided. This helps mitigate against the 'I thought it did that, but it doesn't, so i want my money back' type of issue with customers.

> **Payment terms:** For a business where you are paid before or on the delivery of your goods or services, terms are less of an issue. But if you are paid after supply, enforcement of payment obligations is a start-up's biggest challenge. This might include credit terms and what happens if payments are late, such as suspending supply of a service, or taking debt recovery action.

> **Liability:** Sometimes things can go wrong. When it does, you want to minimise the risk to your business. This starts by limiting the liability of your business under the T&Cs, i.e., in accordance with the changes paid/the value of the contract. This is where fully understanding and identifying the scope and purpose of your products and service is essential.

> **Intellectual property (IP):** Many products and services have IP rights already within them, and such rights need protection within the T&Cs. For example, a customer could reverse engineer your software and copy it or develop a competing product or service.

> **Confidentiality:** Many suppliers of products and services need to share their confidential information when supplying to customers. Such confidential information is commercially-sensitive and in many instances, valuable. Terms which protect your confidential information within the T&Cs is essential.

> **Data protection:** Most businesses handle or process personal data, such as to facilitate delivery. Certain information must be provided to an individual before you can use their personal data - this is achieved by way of a privacy policy. Also, you may need to register with the Information Commissioner's Office (ICO)- the UK's data regulator.

> Term and termination: T&Cs that confirm when you can terminate the contract with a customer may prove essential for managing business risk. For example, should the customer fail to pay, or if you supply to businesses, then you will likely want to be able to terminate should a customer change ownership, and the new owner is one of your competitors.

Although every industry is unique, if your company provides IT/tech services, there are additional complexities. Tech is often delivered as a bundle of products and digital services on a subscription basis – the specification and scope of the solution, licensing, IP and data protection are primary elements that require specialist expertise.

> Does my company need to worry about the UK GDPR? If your business processes personal data, then it will need to comply with data protection law. This area of law is extensive and complex and governs the use of personal data, including when conducting direct marketing. The risk for businesses who fail to comply can be significant - including multi-million-pound fines and bad publicity.

Compliance with data protection should be addressed within your T&Cs, privacy policy, and internal policies, such as staff handbooks and data protection policies. Talk to your trusted adviser about this topic, who can help you identify your risks and steps required for compliance.

What else do I need to know?

If you are in a business-to-business relationship, rather than selling directly to consumers, you will typically request that payment is made within 30 days. However, you can negotiate and agree shorter or even up-front payment terms with some customers, so you may not have to wait that long for payment.

You might issue an invoice electronically or in paper format, depending on the customer's preference. Increasingly, you will find large businesses have online supplier portals that you use to upload your invoice. Your accounting software will have an invoicing module, which may link directly to some of your customers' and suppliers' accounting solution to automate the process. Speak to your accountant for more information.

Open a business bank account

We have explained that your limited company is a separate legal entity. That means it requires its own business bank account to be able to accept and make payments. Make sure you choose a bank and open the company account well in advance of your first invoices and payments. Know Your Customers (KYC) regulations and Anti-Money-Laundering (AML) legislation requires banks to complete checks on the directors and shareholders of companies applying for accounts. These include identity checks which can be quite in-depth and time consuming, so start the process of opening an account as soon as your company is incorporated.

Claiming expenses through your company

One of the benefits of being a limited company owner is that expenses can be claimed back from your business and can reduce your tax bill. This may appear counter-productive, as every expense claimed reduces your company profit margin, but a reduced profit means a lower Corporation Tax bill at the end of the year, saving you money. If these are legitimate business expenses that you would have incurred anyway, it makes perfect sense to claim them out of pre-taxed money through your limited company.

How do you claim expenses?

Expenses incurred wholly and exclusively for the purposes of the business can be claimed in several ways:

> Direct payments from your company bank account:
This is the most common method of recording your expenses as they are paid for directly out of company funds and are easily identifiable by your accountant.

> Company Credit Card and/or Debit Card:
This method again allows for easy identification and recording of company expenses. It is important to retain your credit card statements and all related purchase/expense invoices so that your accountant can identify what the expenditure is related to.

> Petty cash:
Often directors will draw cash from the company bank account and use this cash to pay for company expenses. This is often used for travel and subsistence costs, particularly when travelling abroad. It is a totally acceptable method of incurring business costs provided that receipts are retained in support of the expenditure.

> Expenses borne personally by the director:
It is also possible for a director to incur expenses on the company's behalf. These can be reclaimed from the company at full value, provided evidence exists that the expenditure was genuinely incurred, usually by way of a periodic expense claim.

Regardless of how it is incurred, each expense should be supported by an invoice or receipt and needs recording. Most accountancy software includes an expense recording and payment process, and many online providers now offer solutions whereby expenses records are automatically updated as soon as you upload an image of a receipt from your phone.

If you don't already have a recording and payment process in place, or accounting software, you needn't worry. You can easily record your expenses in an excel spreadsheet, and only basic information is required:

> The date of the expense

> What the expense was for

> The amount of the expense

If you record expenses manually, be sure to hold on to all original receipts, or photos/scans, as your accountant may need to verify any unusual costs. Similarly, if you wish to claim VAT on an expense, you need to provide a VAT receipt.

Your own cash expenses can be claimed at any point throughout the year, but it is good practice to claim regularly and keep tabs on VAT expenditure. Credit card use and company capital expenses can be claimed at any time, although some business owners claim these expenses on a quarterly basis to align with their VAT returns.

What you can claim as expenses

The range of costs that you can claim as allowable expenses is vast and depends on what your company does. Businesses come in all shapes and sizes, delivering a huge range of products and services. General categories include:

> **Operational costs**, which account for most of the huge variation in expense categories, and would usually be paid for directly by your company

> **Financial costs**, including accounting fees, insurance, bank charges and the cost of finance, such as loan interest

> **Sales and marketing costs**, which would also include websites, advertising and digital marketing

> **Business purchases** that may not be core operational costs, such as laptops and stationery

> **Communications**, including mobile phones (contract must be in the company's name), landline telephones and broadband internet

> **Director and staff costs**, such as travel, subsistence and accommodation.

Don't forget the golden rule

To qualify as a legitimate expense without causing tax problems, tax rules dictate that the cost needs to have been incurred wholly, exclusively, and necessarily in doing your job for your limited company.

Benefit-in-kind payments on expenses and benefits

Certain expenses attract what's known as benefit-in-kind tax and NIC charges. A company car and private health insurance are good examples. These benefits have a value that you would pay directly out of your own taxed income if your company wasn't paying for them. So, the value of these benefits is added to your remuneration, and you pay income tax and NICs on them.

Trivial benefits

Benefit-in-kind applies to all sorts of benefits, such as cars, health insurance and gym memberships. But there are rules that say trivial benefits, such as a bunch of flowers for a birthday, a pamper pack or a modest hamper for the winter holiday celebration, should be tax-free for the person receiving the benefit. Employees can receive unlimited trivial benefits (but cannot exceed £50 per day and cannot be a reward for services). Directors have a £300 limit for each 5 April tax year.

Annual event allowance

Another tax-free benefit is the annual event allowance. This HMRC social functions and parties exemption – annual event, is to allow a company celebration or event, such as a holiday party, without benefit-in-kind. The allowance provides for a spend of up to £150 per head (inclusive of VAT).

The tax rules regarding many expenses can be complicated and it's important to take advice. However, the good news is that your UK200Group accountant can help you claim legitimate expenses without falling into the many traps that exist.

Financial flexibility

Paying yourself a salary via salary and dividends

One of the greatest advantages of doing business as the shareholder and director of a limited company is the remuneration flexibility that comes with it. Paying a combination of a salary and dividend can also be the most tax-efficient way for you to take remuneration from your business; unlike sole traderships, partnerships and salaried employment, you are in control of when and in what form you take your remuneration.

How does the flexible salary/dividend model work?

The flexible salary/dividend model is effective for several reasons. In most circumstances, those who operate it can pay less tax and National Insurance Contributions (NICs) overall than those who pay themselves higher salaries and can choose to take their remuneration at the most tax advantageous time. This is a legitimate tax planning strategy. Many company owners consider the tax advantages it brings to be a fair exchange for the risks they are taking by starting and running a business.

How does it help you save?

Each component of the flexible salary/ dividend model has its own advantage:

> You typically pay a salary up to the personal allowance and NIC thresholds, so you pay no income tax or employee NIC, although there may be situations where a higher salary is appropriate to your personal circumstances

> Taking a salary reduces the amount of income you are drawing out of company profits, thus reducing the overall Corporation Tax liability

> The dividend is taxed at a lower marginal rate than employment income and doesn't attract NICs

> During tax years that your business does exceptionally well, you can choose to defer higher levels of remuneration that would attract higher income tax for tax years when the business does less well

> The flexibility enables you to choose to use tax-free company pension contributions as part of your overall remuneration strategy.

As a limited company owner, you could pay yourself a salary that falls below the personal allowance (PA) and employee NICs thresholds, which in 2025/26, is £12,570. Then you draw a dividend.

In 2025/26 you also have a Dividend Allowance of £500 to use. This means the first £500 of dividend income which exceeds your PA is also drawn tax-free, although it reduces your basic rate tax band by the same amount (explained in more detail on page 26). It's important to note that the dividend tax brackets apply to all earnings, so issuing a salary won't delay the point at which you enter higher tax brackets.

This model does not suit everyone's personal circumstances, so it is important to take expert advice from your adviser.

Flexible salary/dividend models

How do they work?

Two owners of limited companies each make £70,000 profit in a year. Here we compare the effect of taking the profits mainly as a salary or via dividends. We have used the tax rates for the year to 5 April 2026, as announced in the Budget. Your accountant may recommend a different level of salary appropriate to your circumstances, other income and your company's Corporation Tax rates.

High Salary — Christine

Christine takes the profits as salary

Profit	70,000
Salary	(61,520)
Employers NIC	(8,480)
Net profit after salary and NIC	0
Employees NI	3,241
PAYE	12,040
Post tax income	
Salary after PAYE and NIC	**46,239**
Total-tax paid	23,761

The company has to pay Employers NIC on her salary above the £5,000 secondary threshold.

Christine's salary and the NIC payments are a tax deductible expense for the company, reducing the corporation tax it needs to pay.

Christine has to pay income tax and employee's national insurance contributions on her salary.

Her total income after tax is £46,239.

High Dividends — Sonny

Sonny takes a salary of £12,570

Sonny takes the rest of the profit as dividend

Profit	70,000
Salary	12,570
NIC	1,135
	56,295
Corporation Tax	11,168
Net profit after tax - Dividends	45,127
Tax on dividends	5,762
Post tax income	
Salary	12,570
Dividends	45,127
Less: income tax on dividends	(5,762)
Total post tax income	**51,935**
Total-tax paid	16,930

The salary is a tax deductible expense for the company, reducing the corporation tax it needs to pay. The company has to pay £11,168 corporation tax.

There is no income tax or employers NIC. Sonny has to pay income tax on his dividends totalling £5,762. His total income after tax is £51,935.

By taking more of the profits as dividends rather than salary, Sonny has £5,696 of extra income.

Your company's level of profits and corporation tax rate may impact the tax level of salary for you so it is important to review each year.

Paying dividends
The paperwork

Dividends can be declared at any point during the year, as long as you have sufficient profits in the company. However, the Companies Act requires you to complete certain paperwork for the dividends to be legal and valid, and to prove for the purposes of your Self-Assessment tax return how much dividend you have been paid and when.

Most accountancy software prepares the relevant paperwork automatically. This is providing you have kept your income and expenses reporting up-to-date. Assuming you have, and you choose the relevant option in your software, the dividend voucher and a board minute are either generated automatically or via a few simple clicks.

The dividend voucher, which is sometimes called a counterfoil, is essentially your receipt. The board minute records that you and your fellow directors held a board meeting to review the company finances, confirm sufficient profits exist, decide it is appropriate and prudent to declare a dividend, and then choose the amount of dividend.

If you don’t use accountancy software, or it does not auto-generate vouchers and minutes, you must create them manually.

How to generate a board minute

As soon as you and your fellow directors have agreed to distribute dividends, it needs to be acknowledged in the minutes of the board meeting.

This will typically be prepared by the company secretary, although your accountant can prepare board minutes for you.

The minutes must be signed by a company director before becoming part of the company records. This is a straightforward procedure, with the board minutes simply needing to acknowledge:

> The dividend amount per share
> The date of the meeting
> The date that the dividend is paid

Preparing your dividend voucher

This is the equivalent of a dividend receipt and is issued to each shareholder in your company who receives a dividend. It contains the same basic details as the board minutes, only each shareholder keeps the dividend voucher to include within their Self-Assessment tax return.

A warning about backdating dividends

Remember that this paperwork needs to be completed the day the dividends are issued and should not be backdated.

How to manage your payroll

Every employer must run a payroll, so that their employees get paid, and, payments and tax deductions can be reported to HMRC. With Real Time Information (RTI) and workplace pension Auto-Enrolment (see below), running a compliant and efficient payroll for your company is essential. Even if you have no employees when you first start your business, as both the director and an employee of your limited company, you are obliged to do so as well, and must prepare monthly payslips.

This may sound burdensome, but a full payroll service is part of the package that most accountants provide to limited companies and is certainly within scope of the services that they can offer. To ensure your payroll is accurate and compliant, your job will be to provide your accountant with the information required to carry out the calculations. You must ensure the company pays any income tax, National Insurance Contributions (NICs), and Auto-Enrolment pension contributions as required.

What is Real Time Information (RTI)?

HMRC introduced RTI to help understand the tax positions of individual taxpayers in real time, removing the need for large adjustments at the end of the tax year. It only applies to employment income (your salary), meaning reporting of dividends and filing of Corporation and Self-Assessment tax returns aren't affected. Payroll data must be reported to HMRC in real time, on or before the date that employment income is paid. As a result, you may find that your accountant sends you a payslip and an RTI return once a month, although in the majority of cases this will be dealt with automatically online.

Providing your annual salary is below the NICs threshold, no income tax or NICs will be due, although, if your employees are paid salaries above the thresholds, payments will be due on their behalf.

Workplace pension Auto-Enrolment

Qualifying employees of your company must be enrolled into a workplace pension scheme, by which your employee and your company pay contributions into the employee's pension. Usually referred to as pension Auto-Enrolment, you must choose a pension scheme and make these payments via your payroll.

There is a free pension service available, the Government scheme NEST, which was created to help make Auto-Enrolment simple for all employers. You and your company's individual circumstances may make an alternative scheme more suitable. Alongside creating and managing a payroll, pension Auto-Enrolment is an area where your adviser can help.

Tax overview

Depending on how you run your company and take your remuneration from the business, you or your company will be liable for some or all of the following taxes:

> **Dividend tax**: This is a tax applied to dividends and needs to be declared in your Self-Assessment tax return at the end of the year, see pages 26-27

> **Value Added Tax (VAT)**: You can charge VAT on your invoices and pay VAT on company expenses. You need to report this quarterly, see page 28

> **National Insurance Contributions (NICs)**: If your earnings are above the NIC threshold, you and your employees (if you have them), and your company will be liable for employee's NICs and employer's NICs respectively, see page 29

> **Corporation Tax**: This needs to be applied to limited company profits prior to the distribution of dividends, see page 30

> **Income tax**: If you pay income tax on a salary, it needs to be included in your Self-Assessment tax return. This is generally paid via two payments on account, the deadlines for which are 31 January and 31 July of each year. If you are paid a salary above the personal allowance thresholds, or have employees, your company will pay income tax on your and your employees' behalf via PAYE

> **Capital Gains Tax**: If you have properties or investments you own personally, you may have to pay this tax on the profits if you sell the asset.

Tax - the key dates for your diary

6 April
New tax year begins.

31 July
Due date for second payment on account.

31 October
Deadline for paper Self-Assessment tax return.

31 January
Deadline for online Self-Assessment tax return and first payment on account.

Your company will also have a financial year depending on when you begin trading. For example, your financial year might span from 1 July to 30 June the following year.

You also have an accounting period for Corporation Tax, which in most cases will match your financial year.

Your accounting period is the time covered in your Company Tax Return Form CT600, which needs to be filed within 12 months of the end of the accounting period. On top of this, you usually submit a VAT return to HMRC every three months.

How to calculate your dividend tax liability

Financial flexibility is one of the major benefits of a limited company. Taking some of your remuneration as dividends is one element of this flexibility. Depending on your individual circumstances, paying yourself a larger dividend and a more modest salary, ideally under the income tax and NICs thresholds, can be more tax efficient.

Once you have calculated how much profit the business has made, you then need to calculate Corporation Tax at the prevailing rate, so you know how much tax to set aside. After this point you are ready to calculate your dividend tax liability.

Don't forget your allowances

An allowance is an amount of income that you can draw tax-free each year. Before applying dividend tax, you should consider your allowances. These are:

Personal allowance (PA):

Providing your annual income doesn't exceed £100,000, you have a tax-free personal allowance of £12,570.

Dividend Allowance:

The first £500 of annual dividend is taken tax-free, though it eats into the basic rate band, shrinking it from £37,700 to £37,200.

HMRC refers to this as an allowance, but in fact it's a zero-rate band, due to the fact that subsequent tax bands are affected.
Remember, you can apply your PA to the dividend you draw, meaning the equivalent amount will be taken tax-free.

Applying dividend tax rates

After this point, dividend tax needs to be considered. Below are the dividend income tax rates for 2025/26, which are lower than the equivalent tax band rates for employment income, helping this model increase remuneration net of tax:

Tax band	Tax rate	Total Income
Zero rate	Zero	0-£12,570
Basic rate	8.75%	£12,571-£50,270
Higher rate	33.75%	£50,271-£125,140
Additional rate	39.35%	£125,140

Here's how a Sonny (page 22) who has taken a £12,570 salary and a £45,127 dividend, would work out his dividend tax:

> All £12,570 of the PA is used on the salary

> The Dividend Allowance is £500 and eats into the basic rate band, leaving £44,627 that is subject to dividend tax.

> The first £37,200 of this is taxed at the 8.75% basic rate, which works out at £3,255 in tax. The remaining £7,427 attracts £2,507 in tax at the 33.75% higher rate

> Sonny would pay £5,762 in tax in total.

This is a basic example of how dividend tax is applied. Depending on your personal circumstances, you may be able to draw income even more tax-efficiently. For example, if you are sharing your income with a spouse or other allowances apply.

Speaking to your accountant can help you identify the best tax strategy for you.

Companies House

Enhanced requirements for 2025/26

From 2025, the UK government has begun a roll out of enhanced Companies House requirements which are aimed at mitigating fraud and improving transparency. These reforms apply to anyone who is setting up or who manages a company, or who is a director or person with significant control (PSC) and so are far-reaching in their application.

The reforms include compulsory ID checks for these relevant persons, starting on a voluntary basis but transitioning to a compulsory basis over the course of 2025-26. There are also changes to the information which companies must file, including a greater onus on providing accurate director and shareholder details, as well as a requirement on all companies to file a profit and loss account each year at Companies House.

For anyone involved in running a company, it is important to stay informed on the changes as they are implemented.

Please reach out to your solicitor or accountant (as appropriate) for more guidance on these requirements.

Value Added Tax (VAT)

Value Added Tax (VAT) is the UK sales tax, levied at a standard rate of 20% on all goods and services except those that are exempt or zero rated. Businesses whose gross income is above the £90,000 VAT threshold (correct as of 2025/26) are obliged to register for VAT.

You collect VAT for HMRC by adding it to the invoices that you give to your customers (output VAT). This is then paid on to HMRC, usually on a quarterly basis. However, you can also claim back VAT from your operating expenses such as raw materials and stock, fixtures and fittings, technology or equipment (input VAT). Your company will pay the difference between the amount of input VAT collected and output VAT claimed on a quarterly basis.

VAT can prove to be an effective way to save money, particularly when you are setting up. Here are the key advantages:

> The VAT amount paid on business expenses can be deducted from your company's VAT liability when your quarterly payment is due

> Making quarterly payments means your company benefits from a cash flow advantage

> You can also earn interest on the money.

The VAT Flat Rate Scheme (FRS)

The downside to VAT is having to prepare VAT returns, which means maintaining accurate records for each transaction. Even with an efficient digital accounting system that automatically submits your returns, as required by Making Tax Digital (MTD), VAT accounting can be time consuming.

HMRC introduced the VAT Flat Rate Scheme (FRS) for smaller companies who want to claim VAT with less administrative hassle.

The scheme allows companies with a turnover of under £150,000 to pay VAT at a fixed rate. The rate is determined by the company's revenue and industry and can vary from 1% to 16.5%. Under the FRS, you can only claim VAT back on specific large capital goods purchases over £2000.

After finding that some users were making a modest profit from the initiative, the Government introduced changes in April 2017. The 16.5% higher rate now applies to any company whose goods cost less than either:

> 2% of its turnover

> £1,000 a year (if its costs are more than 2%)

HMRC refers to companies in this mould as **'limited cost businesses'.**

Because the rates vary so much according to the nature of your business, you should discuss whether the FRS is suitable with your adviser.

Pay As You Earn (PAYE) & National Insurance Contributions (NICs)

Running a limited company allows you to use flexible remuneration strategies that can help you keep more of your earnings. If you are paying income tax and National Insurance Contributions (NICs) via Pay As You Earn (PAYE), depending on your personal circumstances, you may not be optimising your earning potential.

PAYE

PAYE is used by HMRC to collect income tax and NICs from employment, whereby a deduction is calculated and made each time the employee is paid. This is taxing 'at source'. If your company employs people, you must run a payroll that operates PAYE and deducts your employees' income tax and NICs. A weekly or monthly payslip must be issued to each employee detailing gross pay and deductions.

Depending on the remuneration strategy you have chosen, making regular income tax and NICs payments via PAYE complicates matters for you, as your annual tax liability is less clear-cut than that of someone on a fixed salary.

Given that many limited company owners receive a large proportion of their remuneration through dividends, they don't tend to pay NICs above the minimum amount required.

How to operate PAYE

If you employ people or have chosen a regular salary as part of your personal remuneration strategy, you and your employees' pay will be subject to employment taxes. In which case, making payments via PAYE is required for your employees and most likely the easiest option for you. This requires your limited company to operate PAYE as part of its payroll.

Payments and deductions need to be reported to HMRC via Real Time Information (RTI) using accounting or payroll software solutions on or before each pay day, whilst annual reports need to be made at the end of the tax year, including details of any expenses or benefits.

Most accounting software has a payroll module, or you can use dedicated payroll software. It is also a service that your accountant may readily provide.

Corporation Tax

You pay Corporation Tax on your limited company profits. Your profits are calculated after expenses and employee salaries have been deducted from sales income, but prior to the distribution of dividends. The UK's Corporation Tax rates are currently 19% on the first £50,000 of profit, 26.5% on the next £200,000 and 25% on anything above that. These limits may be lower if you own other limited companies.

How is Corporation Tax determined?

Corporation Tax is applied to your net company profit. In addition to your company trading profits, you will also need to consider profits from:

> Investments, including returns from assets such as rental property that your company owns etc

> Chargeable capital gains, including profits from the sale of business assets, such as plant and equipment etc.

Expenses must be deducted from your company profits, as do any employee salaries. There will also be other deductions from or additional allowances for profits, such as writing down the value of tangible assets such as equipment, plant, vehicles or fixtures and fittings. The figure remaining will be the sum from which Corporation Tax is deducted.

Determining your profit for tax purposes can be complex, as there are many allowances and deductions for specific treatment of business assets. Your accountant can play an essential role in ensuring you don't underpay, or overpay, corporation tax.

How and when do I pay?

You need to submit your Corporation Tax return - an online form called a CT600 - to HMRC annually. This informs HMRC of your Corporation Tax liability, by detailing your limited company's income, tax allowances and expenses, though in practice your accountant takes care of this for you.

You have until nine months after your company's financial year end to pay your Corporation Tax liability, though peculiarly you can file your return up to 12 months after the company year end.

The Making Tax Digital (MTD) initiative to digitise tax is due to include Corporation Tax by 2026. Once this is implemented, the current plan is that your CT returns will be filed quarterly.

Setting aside money for Corporation Tax

If you are used to having tax deducted at source, paying taxes annually can come as a bit of a surprise. Throughout the year you need to set money aside for Corporation Tax. By running a profit and loss account report each month that also takes into account likely allowances and deductions, we can provide you with an estimate of how much you need to hold back as a portion of your earnings.

IR35
For contractors and SME clients

IR35, otherwise known as the intermediaries legislation, is well known to contractors, freelancers, interims and consultants to trade via a one-person limited company. It is designed to combat what's called 'false self-employment', where a worker using a limited company and paying less tax should really be treated the same as an employee doing the same job and paying more tax.

IR35 is a horribly complex mix of tax and employment law and has been updated twice to include special rules for the public sector and large private sector and non UK clients.

Why is IR35 relevant to limited companies and their directors? Two reasons:

> You may be setting up your limited company to become a contractor or consultant, so IR35 directly applies to you

> Your limited company will use contractors and freelancers who could be impacted by IR35, which requires you to take certain measures demonstrating that IR35 is the responsibility of the contractors and freelancers you hire.

IR35 for limited company contractors

Anybody who works through an intermediary, such as a limited company, needs to consider IR35 each time they seek a new contract.
As a limited company contractor, you have to take measures to prove that you are genuinely in business on your own account. IR35 is all about establishing employment status, which involves considering employment legislation and case law. This is highly complex, although your accountant, or a legal professional expert in IR35, can help assess your status. The rules are different depending on whether you work for a public sector or private sector client. If a private sector client, there are also different rules for large companies and small to medium sized companies.
Different rules apply if you work for a non-UK company. If you are caught by IR35, income tax and National Insurance Contributions (NICs) need to be deducted from your income. The most straightforward way of doing this is to apply PAYE to your earnings.

IR35 for limited companies hiring limited company contractors

If you are hiring a contractor and you are a small company, then IR35 is mostly not your problem – it is your contractor's problem. To be a small company, you must satisfy two of the following: have fewer than 50 employees; have a turnover under £15m; or a balance sheet less than £7.5m.

If you are a small company, then your contractor has to prove they are outside of the IR35 legislation. You should keep detailed records of your contractor and freelancer engagements, and don't be surprised if they ask you for certain paperwork, or to sign-off on various statements. This is all part of their efforts to maintain their status as a genuine business.

As IR35 is so complex, HMRC is actively enforcing the legislation, and there is much misinformation about the tax online. If you believe it might affect your limited company, speak to your adviser.

Your Self-Assessment tax return

As both the director and an employee of your own limited company, you will need to keep on top of both company and personal taxation, which involves preparing a Self- Assessment tax return each year. In reality, your accountant will take care of all of this for you, though it helps to have an understanding of exactly what is required of you.

What is a Self-Assessment tax return?

Your Self-Assessment tax return is used to determine the amount of income tax, dividend tax, NICs and capital gains tax (CGT) due, on income drawn from your company, as well as any other possible sources of income such as rental properties and other investments you own personally. It applies to any person who receives income from which tax isn't deducted automatically – for you this will likely be income sourced through dividends and other investments.

To complete your tax return, your accountant requires details of any personal income received throughout the tax year, as well as details of any expenses and information regarding other income sources. You will need to provide this information throughout the year, and keep careful records.

Don't miss the deadlines

If you file your Self-Assessment tax return by paper, the deadline is 31 October following the end of the tax year. For online tax returns, the deadline is the following 31 January, which is also the deadline for payment.

If your income tax liability exceeds certain limits, HMRC will request a payment on account – an advance payment on your next tax return judged from your income from the prior tax year – on 31 January in the 5 April tax year and 31 July following the end of the tax year.

It's also important to remember that this is a personal tax return. As a result, if you charge the fees for completing the tax return to your limited company, it will be classed as a benefit in kind and income tax will be due on it.

Note that there are proposals for tax payers with certain sources of income to file quarterly tax returns with effect from April 2026 under MTD.

End of year accounts

When we refer to 'end of year accounts' we don't mean the end of the calendar year, but rather the end of your company's financial year. This will initially depend on when your company is incorporated. The company must file statutory financial statements with Companies House within 9 months of its year end.

It is likely that you incorporated your company on a date that means your company financial year does not align with the tax year, which is April to March. You, or your accountant, can apply to Companies House to change this, which can streamline your financial and tax accounting.

Company Tax Return Form CT600

Your company also needs to submit a Company Tax Return Form CT600. Your accountant completes this based on the financial records that you provide, and you need to check and sign the return before it's submitted.

This return will detail your Corporation Tax liability. Although you have 12 months from the end of your company's financial year to file a CT600, Corporation Tax is in fact due nine months after the company year end.

So, if you have a financial year that ends on 31 March 2025, a CT600 will be due on 31 March 2026, yet your Corporation Tax payment as stated on the return will be due on 1st January 2026.

Making Tax Digital (MTD), the initiative to digitise all tax, for Corporation Tax is currently planned for April 2026 onwards and would require companies to essentially file quarterly Company Tax Returns, similar to MTD for VAT in place from April 2022. This could mean the end of the annual tax return.

Directors' Duties

The Companies Act requires directors to maintain sufficiently detailed business records that accurately reflect your company's operations and transactions. This is often the responsibility of your company secretary or can be completed by your accountant, with information you provide. You must also keep financial and accounting records, including those that enable you or your accountant to prepare and file your company's annual accounts and Corporation Tax Return. These records can be digital, you no longer have to keep hardcopies.

Directors’ Loans

Being a limited company director and owner means you benefit from taking your remuneration more flexibly than if you are a sole trader, in a partnership or employed.

Usually, this means you take a modest salary, up to the personal allowance, and dividends. Your company can also loan you money, called a directors’ loan. This may occur when you take money from the business, but have not declared it as a dividend, expenses or salary.

As a director and owner of a small, limited company, you wear two hats. You are a shareholder, so naturally expect to make a living out of your business. You are also a company director, with the very clear and unambiguous duties and responsibilities, as laid out by the Companies Act. There are situations when there can be tension between these roles, and directors’ loans is one of those.

Loans to directors from a company are fully permitted under company law and are generally quite common in owner managed businesses. However, due consideration should be given before taking such a loan as they are not without consequence. Depending on the loan terms they can give rise to both company and personal tax liabilities and they may also lead to directors being personally exposed to financial risk if the business experiences financial difficulties.

A brief summary of the issues is as follows:

Section 455 tax

Any amount loaned to a director which remains outstanding at the company's financial year end, gives rise to a Section 455 (S455) tax liability, levied on the company. This is payable alongside the company's Corporation Tax liability 9 months after the year-end and is charged at a rate of 33.75% of the outstanding loan balance. This S455 tax is a payment on account and is fully repayable by HMRC to the company as the directors loan reduces. Any refund of S455 tax can be claimed no earlier than 9 months after the year end in which the loan is reduced.

It is also possible to avoid payment of S455 tax on a directors' loan balance, if the loan is fully repaid within 9 months of the year end in which the loan is made.

Benefit in Kind - Interest Free Loans

Any loan exceeding £10,000 made to any company employee, including directors, will give rise to a taxable benefit in kind if interest is not charged at an appropriate rate. HMRC set an official interest rate periodically and this rate should be compared to that charged on any loan made by the company to an employee. Any interest amounts charged below the official rate are reportable on a Form P11D and taxable on the individual employee.

The company also has to pay Class 1A NIC on any such interest benefits.

Finally, it should be noted that directors' loans are one of the most common circumstances where the limited liability provided by running your business through a limited company, may be over-ridden. The existence of the loan means that you are a debtor of the company like any other and should the business experience financial difficulties, creditors may force the loan to be called in. You are therefore personally exposed to an amount equal to the outstanding loan balance.

Insolvency and Bounce Back Loans

Insolvency

One of the reasons you chose to trade via a limited company is because your personal assets are ring fenced from the company assets, minimising your personal financial risk.

But if the company becomes insolvent, i.e. can't pay its debts as they fall due, then as the director(s) – you – have to decide whether there is a reasonable prospect of the company's prospects improving. You have to say why you think it will get better. If the company is short of cash because a customer has not paid, but there is a reasonable prospect of the customer paying, then you must record in board meeting minutes that you continued to trade for this reason.

If you don't go through this process and the company becomes insolvent, and creditors are unpaid, then the shortfall can fall on the directors personally. A liquidator will seek to collect any outstanding directors' loans.

Many small companies struggled during the pandemic, and post-pandemic these sorts of issues are coming to light. Regular management accounts that provide an accurate snapshot of your company's financial position are essential to help you take, and justify decisions and judgements about your company's solvency.

They may also help flag that a cashflow shortage may be coming, so you can take measures, such as arranging for an overdraft or loan, or negotiating longer terms with suppliers, to manage the period.

Your accountant can help you produce these. If you believe your company may be in financial difficulty, speak to your accountant immediately.

Bounce Back Loans

To help businesses survive the difficult trading conditions and lockdowns during the pandemic, a range of financial support measures were introduced by the Government. Tranches of loans designed to give businesses easy access to finance were introduced. The Covid Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) were two such schemes, commonly referred to as 'bounce back loans'.

Many businesses did not make profits during the pandemic. As a result, the company directors could not declare dividends. But often, the directors took their remuneration anyway because they needed something to live on. The Bounce Back Loan was often used to fund directors' loans.

Post-pandemic, this is emerging as an issue because many companies have become insolvent despite the financial support, often once the repayments started and stretched cashflow too thin. Liquidators and lenders then go after the directors, who are debtors of the company just like any other.

It is possible to trade your way out of this situation, or work with insolvency practitioners to find a debt repayment plan. Start this process by speaking to your accountant.

Why you need professional advice

Whilst running your own limited company does mean that you must make provision for yourself in many regards, the financial flexibility that it allows can yield some surprising tax advantages for your personal finances. You'll also find that you have access to certain services that you may not have known were available. Securing sound professional advice from a specialist adviser who understands the specific needs of company directors is essential.

Tax saving opportunities with director pension schemes

With no pension scheme available such as you'd find in a large corporate or public sector organisation, many company directors and owners set aside a portion of their earnings each month to go into a private pension fund, which actually offers significant tax saving opportunities.

Unlike earnings drawn from the company, money paid into a pension pot by the company is pre-tax, so doesn't attract Corporation Tax, income tax or NICs. Most limited company directors can currently invest up to £60,000 each year and can choose to buy an annuity or invest in other assets upon retirement, should they wish.

You can draw on your pension from the age of 55. This might seem like a long way off, but it can be worth it. If you wish to discuss pensions or financial planning in general, please let us know.

Mortgage options available to directors

For limited company directors, securing a mortgage was once a difficult task, with banks and building societies typically requesting up to five years of accounts.

However, there is now an increasing amount of mortgage lenders willing to provide loans who can be accessed via brokers who specialise in advising company directors.
Working with an expert is essential, because a specialist will work with you to prepare the records your lender will require.

Other savings and investments

There are many other opportunities open to limited company directors, who can also use their limited companies as vehicles for investment. This can encompass anything from equities and artworks to precious metals and property portfolios. There are special rules that apply if you use your company for investments so for further information and guidance on the potential options available to you, contact your accountant.

Thinking about growing your business?

Most business owners start their company either to fund their ongoing lifestyle or to build a business into something of value and then engage in a transaction, such as a business sale to release shareholder value. The former is unsurprisingly labelled as a lifestyle business, and can support very comfortable lifestyles, often growing organically to have high sales and many employees. Often though, when the founder retires, the company ceases trading. Or there is little value in the company so it can only be sold for a small amount.

Your growth business

However, you may be an entrepreneur with a great idea around which, you plan to build a high growth business that rapidly takes on employees, or requires facilities, plant equipment and other assets. This type of business usually requires a clear strategy and leadership, strong planning and financial management, highly skilled talent, and usually external funding from loans (debt finance) or investment (equity finance).

Employing high performing teams

Most high growth businesses need lots of talent and hire employees, contractors and freelancers. Hiring and retaining highly skilled employees can often require attractive remuneration packages that may include incentive schemes, share options, and equity, requiring watertight contracts. These can be complex and possibly costly to create, if not approached correctly.

Managing growth

In addition to operational challenges, high growth companies face financial challenges such as tight cashflow, but also opportunities in the form of tax breaks, particularly in specialist sectors or in particular locations with local enterprise support.

Lending and investment readiness

During your company's rapid growth, you will almost certainly need external investment. Often this will come from friends and family. Although just because it is your loved ones who offer cash, doesn't mean you shouldn't have loan agreements or equity agreements in place.

You may also have business angels who want to invest and banks who can loan you badly needed cash or make an overdraft facility available. These investors and lenders will want to see your business plan, plus detailed accounts and financial records. You'll need robust agreements with investors.

As your company increases in size, you may be talking to private equity investors who could inject millions into your company or may consider offering bonds - another form of debt finance.

Managing a transaction, like a business sale

At some point, most entrepreneurs want to release some value or cash from their company. This usually happens via a transaction such as a sale, but it could also be another stage of investment, or perhaps even an initial public offering (IPO) on a primary equity market. These are complex processes that should not be tackled without expert advice.

Your UK200Group solicitor and accountant can support you with expert advice and guidance throughout all the above stages, often having local knowledge of investors, enterprise support and even key talent to strengthen your team.

Glossary

Companies House: The Government service used to incorporate and dissolve companies, as well as register company information and make it available to the public.

Company Tax Return Form (CT600): A return completed on behalf of a company each year, detailing its Corporation Tax liability.

Corporation Tax: Tax paid on the profits of a company, following the deduction of expenses and employee salaries.

Deemed employment: An HMRC term used to describe an individual who has been paying tax as though they are a self-employed contractor but whose working practices mean they are legally an employee.

Dividend tax: Income tax applied to the distribution of dividends at significantly lower rates than personal income tax.

Expenses: Costs incurred that can be offset against an individual's or company's tax liability.

Freelancer: Somebody who works on a self-employed basis who isn't committed to a particular employer long-term.

Income tax: Tax paid on personal income.

IR35: Tax legislation with the purpose of identifying 'deemed employees' and ensuring that they receive the correct tax treatment.

Limited company: A private company which operates as a separate legal trading entity from its owners, insulating them from business risk.

MTD (Making Tax Digital): A Government requirement to digitise tax filing.

National Insurance Contributions (NICs): A tax paid by employers and employees used to fund state benefits.

Pay As You Earn (PAYE): HMRC's system used to collect income tax and National Insurance Contributions (NICs) from employment.

Payroll: A company's records of its employees' salaries or wages, as well as deductions of income tax and National Insurance Contributions (NICs).

Personal service company (PSC): A term devised by HMRC used to describe a company that exists only to hire out the services of a sole individual.

Personal allowance (PA): An amount of income that an individual can earn within a tax year before income tax becomes due at the basic rate.

P11D: A tax form filed by employers to report expenses and benefits to HMRC for individual company directors or employees.

P35: An annual return completed by employers, providing details for everyone employed during the tax year.

Glossary

Real Time Information (RTI): A system implemented to make PAYE submissions more efficient, instantly informing HMRC of changes when information is submitted.

Self-Assessment: The end of year tax return used to determine how much tax is due on an individual's personal income.

SIC (Standard Industrial Classification) code: A code assigned to a company which informs the Government of its nature of business.

SME: Small and medium-sized enterprises whose employee numbers and annual turnover fall below certain limits.

Tax-planning: The analysis of a financial situation with the purpose of achieving greater tax-efficiency.

Unique Taxpayer Reference (UTR): A number that identifies you with HMRC for anything related to your personal tax obligations.

Value Added Tax (VAT): The sales tax levied on the majority of goods and services exchanged in the UK.

VAT Flat Rate Scheme (FRS): A scheme available to small companies, enabling them to pay VAT at fixed rate so to reduce administrative requirements.

This handbook has been prepared for general interest and it is important to obtain professional advice on specific issues. We believe the information contained in it to be correct. While all possible care is taken in the preparation of this handbook, no responsibility for loss occasioned by any person acting or refraining from acting as a result of the material contained herein can be accepted by the UK200Group, or its member firms or the authors.

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