LIMITED COMPANY

SkyTax

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Accounting and Taxation

As a company director, it is your responsibility to make sure that all the necessary financial statements, Tax returns and other required documents are filed to the relevant government authorities and taxes paid on time. There are two authorities governing companies in UK: HMRC and Companies House. HMRC (Her Majesty Revenue & Customs) collects taxes and national insurance. Tax returns and financial statements are required to be submitted to HMRC. Companies House maintains a register of all the companies in UK. Confirmation statements and financial accounts need to be submitted to them.

Accounts to Companies House

When you set up your limited company, you automatically get different reporting dates for the first annual accounts you send to Companies House.

Annual accounts

Your first accounts usually cover more than 12 months. This is because they: start on the day your company was set up ('incorporated') end on the 'accounting reference date' that Companies House sets for the end of your company's financial year - this is the last day of the month your company was set up.

Example

If your company was set up on 11 May, its accounting reference date will be 31 May the following year. So your company's first accounts must cover 12 months and 3 weeks. In following years, your accounts will normally cover your company's financial year from 1 June to 31 May.

Penalties for late filing

You'll have to pay penalties if you don't file your accounts with Companies House by the deadline.

Time after the deadline	Penalty (for private limited companies)
Up to 1 month	£150
1 to 3 months	£375
3 to 6 months	£750
More than 6 months	£1,500

Penalties for public limited companies are different.

The penalty is doubled if your accounts are late 2 years in a row.

Corporation tax

Corporation tax is the tax on the net profit of the company after deducting expenses from your total profit. The rate of Corporation tax is 19% on the Net Profit for small companies. Once the company is incorporated, HMRC will allocate the company a Unique Tax Reference Number and send you a form called Corporation Tax, New Company Details. CT41G which needs to be submitted to the tax office notify them of the date to which the company intends to prepare its accounts to called Accounting Period. Accounting period is the period for which the company needs to prepare the tax return and pay taxes. The accounting period cannot be more than 12 months from the date of incorporation. The corporation tax return and accounts need to be submitted to HMRC within 12 months after the end of accounting period. The corporation tax is payable within 9 months and 1 day after the end of accounting period.

Penalties for late filing

You'll have to pay penalties if you don't file your Company Tax Return by the deadline.

Time after your deadline	Penalty
1 day	£100
3 months	Another £100
6 months	HM Revenue and Customs (HMRC) will estimate your Corporation Tax bill and add a penalty of 10% the unpaid tax
12months	Another 10% of any unpaid tax

If your tax return is late 3 times in a row, the £100 penalties are increased to £500 each.

If your tax return is more than 6 months late

If your tax return is 6 months late, HMRC will write telling you how much Corporation Tax they think you must pay. This is called a 'tax determination'. You can't appeal against it. You must pay the Corporation Tax due and file your tax return. HMRC will recalculate the interest and penalties you need to pay.

Appeals

If you have a reasonable excuse, you can appeal against a late filing penalty by writing to your company's Corporation Tax office. Check recent tax forms or letters from HMRC for your Corporation Tax office address or call the **Corporation Tax helpline**.

VAT

VAT (Value Added Tax) is a tax charged on most goods and services that VAT registered business provide in the UK. Every VAT registered business must charge VAT when selling goods or provide services. The VAT paid on the goods and services bought can be reclaimed from HMRC. Currently the standard VAT rate is 20%. Some goods and services e.g. Medical services are exempt from VAT. Vat is always calculated on Net sales. In other words, if you charge your agency £1000, as a VAT registered company you have to collect additional 20% which is £200 (1000*.20). Therefore you will invoice your client £1200 instead of £1000.

You must register for VAT if:

- your VAT taxable turnoveris more than £85,000 (the 'threshold') in a 12 month period
- you expect to go over the threshold in a single 30 day period

You can register voluntarily if your business turnover is below £85,000. You must pay HMRC any VAT you owe from the date they register you. If your VAT taxable turnover is less than £150,000, you can register for Flat Rate VAT Scheme. Under the flat rate scheme, you cannot reclaim VAT paid on the purchases, but the difference between VAT collected from your clients and VAT paid to the tax man is the income of your company. Flat Rate VAT rate is different for each company depending on the industry they work in. The illustration below explains how the Flat Rate Scheme works based on a Flat Rate of 11%.

	Standard VAT (£)	Flat Rate VAT (£)
Invoice Amount per week	1000	1000
VAT charged to clients (20%)	200	200
Total amount received	1200	1200
VAT paid to HMRC	200	132 (11% of 1200)
Benefit to the company	68	

If you spend a small amount on goods

You're classed as a 'limited cost business' if your goods cost less than either:

- 2% of your turnover
- £1,000 a year (if your costs are more than 2%)

This means you pay a higher rate of 16.5%. You can **calculate if you need to pay the higher rate** and work out which goods count as costs.

If you aren't a limited cost business, you use your business type to work out your flat rate.

Professional Indemnity Insurance

Professional Indemnity Insurance is a fairly specialised area – that means you need to make sure you get good quality advice from someone who really understands the market. Whether you're a doctor, a business consultant, an architect, or any other kind of contractor or freelancer, Skytax Accounting Ltd can make sure you get the insurance policy that is right for your business. Professional Indemnity Insurance generally only covers you for claims that you make while your policy is active. That means even if you close your business, you might wish to continue paying for cover for some amount of time afterwards to protect you in case a client makes a claim against you. It will be much easier to make a claim on your insurance if you have good records of all your interactions with your client, the instructions he has given you and the agreements you have reached. This means it is vital to make sure everything is documented and filed.

Employers' Liability Insurance

If your business employs one or more members of staff, you are legally obliged to take out Employers' Liability Insurance. In case of Contractors and Freelancers, if you working through a limited company and have only one employee (You) and you own minimum 50% shareholding, then your company is exempt from Employer's Liability Insurance. Employers' Liability Insurance is designed to cover you if one of your employees seeks compensation from you following injury or ill health they have suffered as a result of working for your business. For instance, if your business employs a carpenter and he injures himself with a power tool, your Employers' Liability Insurance would pay him compensation. Employers' Liability Insurance can also cover you against compensation claims that are made by former employees, even a very long time after they have worked for you. For instance, if a carpenter you employed was exposed to asbestos while working for you, and subsequently became ill, the insurance you had when he was working for you would still cover you – however, the policy will only cover you if you still have a record of your cover, so it is vital that you retain all details of Employers' Liability Insurance policies you have held.

Pension

Putting money into a pension is a very good way of reducing the amount of money you need to pay in Income Tax and National Insurance contributions. You can pay money towards a pension in two principal ways. The first way is to contribute personally; the second is to arrange contributions into a pension fund from your business.

Paying into a personal pension

When you pay money into a pension scheme from your own money, the money you pay in, benefits from personal tax relief. The pension provider will add 20% to whatever contribution you make, effectively extending your basic rate of tax by the grossed up pension contribution. So, for example, if you put £8 into the fund, your provider would increase that to £10. Your basic rate band will also be extended by £10. Although you can pay as much money into a pension as you wish, tax relief will only apply on the contributions up to a maximum of 100% of your salary. That means if you pay more money into a pension in a given year than you have earned, you will not receive any tax relief on the amount exceeding your total earned income in that year.

Paying into a company pension

Paying into a company pension is slightly different in that rather than coming from your own funds, the pension contribution would be made on your behalf from your company's funds. These pension contributions still benefit from tax relief, but rather than gaining Income Tax relief, they attract Corporation Tax relief. To be entitled to Corporation Tax relief, HMRC states that the contributions must be made wholly, and exclusively, for the purpose of trade. In practice this means that the combined salary and pension that the company employee or company director receives in the year is 'reasonable', and does not cause the company to make a loss. The maximum amount you can pay into a pension in any given year is £40,000. However, if your income is more than £150,000, the annual allowance limit is reduced (called Tapered Annual Allowance). The annual allowance will be reduced by £1 for every £2 of income earned above the threshold of £150,000, up to a maximum reduction of £30,000. The maximum amount you can pay in over your whole life is currently £1,000,000. Paying in more than these amounts into a pension fund will trigger additional tax requirements. If you do pay money into a pension scheme through your company, you must make sure that the provider knows it is coming from a company rather than an individual, and you should ensure that you make the contributions from a company account rather than your own personal account.