

Companies

- Our trading option to majority of small business is to operate as a limited company as this provides a number of tax planning strategies and limited liability status
- A company is a separate legal entity capable of acquiring rights and incurring liabilities that are separate from those of its members.
- A company is recognised by the law as being a legal person.
- A business is 'small' or 'medium-sized' if it satisfies at least two of the following conditions for the period of account, or preceding period of account:

	Small Business	Medium-sized business
Annual turnover: not more than	£5.6m	22.8m
Assets: not more than	£2.8m	£11.4m
Employees: not more than	50	250

- All profits and all losses, assets and debts are owed by the company.
- The directors who can be the shareholders, who are employed to act as the agents for the overall administration of the company are paid a wage.
- Shareholder's liability as owners is limited to the amount unpaid (if any) on their shares.
- Directors liable for Fraudulent or wrongful trading.

Managing Finances & Administration

- You need to decide on a name then register company with the Companies House, then get your Memorandum and Article of Associations sorted out
- You will get a Company Registration Number; If you are trading and have decided on a trading trade and period need to file CT100
- "Cash flow" is King and don't go merely on profits
- Have box filing systems, book keeper or an accountant
- No audit required if small company exemption
- You can hire any number employees –Employer Help Line 0845714 3143, 0845 60 70 143
- You can hire sub contractors. Better to draft a Service Level Agreement (SLA).
- Insurances – Need to get Professional Indemnity, Employer & Public and Product Liability depending on the nature of business
- Directors and Officers Liability

Managing Taxes

	2010	2011	2012
Small Companies Rate	21%	20%	TBA
Net Profit Cap	£300,000	£300,000	TBA

- If you are employed you need to prepare P46
- You will be in the payroll Draw a wage - £7,475 tax free allowance

Dividends

In the United Kingdom there are two types of dividends:-

An INTERIM DIVIDEND (i.e. a dividend declared and paid before the company has compiled or released its final financial statements for a given year) and

The FINAL DIVIDEND The last dividend declared in a given fiscal year. The final dividend is determined after all financial reports have been made and the company has the clearest pictures of its performance that year.

However in small companies where the directors and shareholders are often one and the same, there is nothing to stop declaring and paying dividends (in my opinion) as being declared by the shareholders in general meeting, as long these are declared properly with a board minute and reference to the draft monthly accounts

If I were you, I would structure your payments either of the options listed below:-

OPTION 1

Get a wage declared up to - £7,475 which is tax free

Declare Interim Dividend – of £30,000 for the whole year and get yourself paid £2,500 each month

Declare a Final Dividend – of £7,400 when accounts are finalised

This way you will get £7,475 + 90% of £37,400 plus a tax credit of 10% on your dividend payout

OPTION2

Alternatively this is my preferred option

1. You can get your wage tax free paid out in the first two months – £7,475
2. Then get £5,525 paid out in the next two months as Directors loan
3. Declare an interim dividend of £12,000 and get yourself paid £6000 for the next 2 months and settle the directors loan

Which means in the first 6 months all accounts are cleared.

4. Then get yourself paid out £6,000 for the next two months as directors loan (7th and 8th month)
 5. Declare and interim dividend of £12,000 and get yourself paid out £6K for the next 2 months and clear the directors loan (9th and 10th month)
 6. Then get yourself paid out £6,000 for the next two months as directors loan (11th and 12th month)
 7. Declare a final dividend of £13,400 which will clear all the accounts plus gives you an additional £7,400 less 10% tax
- There are two different Income Tax rates on UK dividends. The tax rate on dividends depends on whether your overall taxable income (after allowances) falls within:-
 - a. The Basic Dividend Income Tax Rate of 10% below £35,000 (2011-12).
 - b. The Upper Dividend Income Tax Rate of 32.5% above the £35,000
 - When you get your dividend you also get a voucher that shows:
 - a. Dividend paid - the amount you received
 - b. The amount of associated 'tax credit' -
 - c. If you have agreed to get your dividends paid electronically you may get your dividend voucher in paper or electronic form.

Understanding the dividend tax credit - Companies pay you dividends out of profits on which they have already paid - or are due to pay - tax. The tax credit takes account of this and is available to the shareholder to offset against Income Tax due on their 'dividend income'.

When adding up your overall taxable income you need to include the sum of the dividend(s) received and the tax credit(s). This income is called your 'dividend income'.

The dividend you are paid represents 90 per cent of your 'dividend income'. The remaining 10 per cent of the dividend income is made up of the tax credit. Put another way, the tax credit represents 10 per cent of the 'dividend income'.

Dividend income at or below the £35,000 basic rate tax limit - Dividend paid to you (represents 90% of the dividend income) Tax credit (10% of the dividend income) Dividend income (dividend paid plus tax credit)

If you pay tax at or below the basic rate - You have no tax to pay on your dividend income because the tax liability is 10 per cent - the same amount as the tax credit.

If you pay tax at the higher rate - You pay a total of 32.5% tax on dividend income that falls above the basic rate Income Tax limit of (35,000 But because the first 10 % of the tax due on your dividend income is already covered by the tax credit, in practice you owe only 25 %.

VAT registration - If annual turnover over £73,000 (2011/2012)

If you're employed in the company – Income Tax

Income Tax		2011/2012
Personal Tax allowance	0%	£7,475
Basic Rate	20%	£0- £35,000 (£7,476 - £35,000)
Higher Rate	40%	£35,001 - £150,000
Additional Higher Rate	50%	£150,001+

Submit P60, P35, P11D and P14's as part of Payroll Yearend tax return

After every taxable year you need to do a payroll year end

If you're employed – NIC - You are responsible for your own tax and National Insurance contributions. Class 1 (Assuming Contracted In)

Employee

	Week (£)	Month (£)	%
Up to	102.00	7,225	Nil
	139.01 – 817.00	7,225.01 - 42,475	12%
Over	817.01	or 43,875.01	2%

Employer

Over	136.00	7,225	13.8%
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You will pay a lower amount as an employee if you are a member of your employer's contracted out pension scheme

Disadvantages

- **Double taxation if you carry out your business through a company.**
As companies are separate entities from their owners, they pay corporation tax.. When the after tax profits are distributed as dividends it will be subject to a dividend tax
- **Administration Cost**
The professional cost in setting up, preparing accounts and tax returns for companies will be higher than for a sole trader or a partnership
- **Audit Requirement**
If your company exceed certain size limits or is in a particular trade sector. It may require an audit incurring further costs. Generally majority of small businesses are exempt.

Advantages

- A company finds it easy raising own capital than sole trader or a partnership.
- Hiring employees ease easy due to prestige, recognition.
- This form of business will have limited liability to the shareholders/owners. Only exception will be if the as a director of the company if you offer a bank or other creditor a personal guarantee to repay the company debt when the company cannot
- **Lower Combined Tax** – Corporation tax for small companies is substantially lower than the combination of PAYE and NIC for individuals.