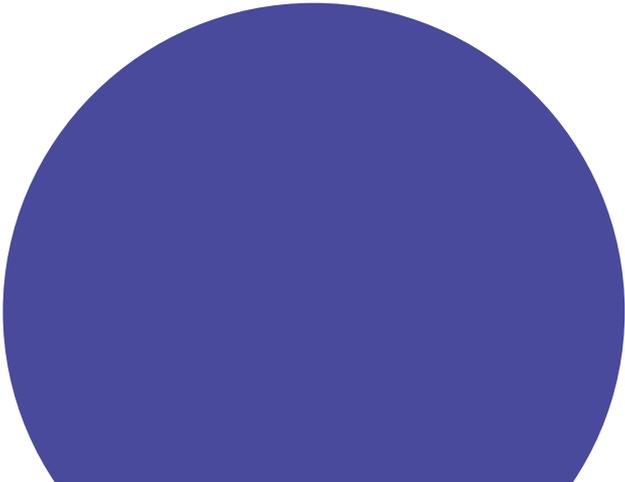




**i-paye**  
accountancy

**Guide to setting up  
and running your  
own limited  
company**



# CONTENTS

<b>KEY THINGS TO CONSIDER</b>	<b>PAGE</b>
Employment vs. running your own company	1
Director's duties and responsibilities	1
Time commitment	1
How long do you intend to contract for?	1
IR35 Considerations	1
<b>SETTING UP YOUR LIMITED COMPANY</b>	
Choose a company name and shareholder structure	2
Open a limited company bank account	2
Arrange adequate cover	2
Register with HMRC	2
Choose the right accountant	2
Initial taxation and other considerations	2
<b>INVOICING, COLLECTING YOUR CASH REMUNERATION</b>	
Invoicing and collecting your cash	3
Remuneration	4
Benefits of using FreeAgent through I-Payee Accountancy	5
<b>MONTHLY, QUARTERLY AND ANNUAL DEADLINES</b>	
Introduction	5
Monthly/Quarterly deadlines	5
Annual deadlines	6
<b>DORMANT COMPANIES AND CLOSING DOWN YOUR COMPANY</b>	
Dormant companies	6
Closing down your company	6
<b>OUR SERVICES AND COSTS</b>	
Monthly/Quarterly services	7
Year end services	7
General	7
Monthly/Quarterly /Year end services	8
<b>PERSONAL TAXATION SERVICES INCLUDING SELF-ASSESSMENT COMPLETION</b>	8
<b>CONTRACTORS COMING TO WORK IN THE UK</b>	8
<b>AN INTRODUCTION TO IR35</b>	9

# KEY THINGS TO CONSIDER BEFORE YOU SET UP A LIMITED COMPANY

## Employment vs. running your own company

It is important to understand that the key difference between being in employment and running your own limited company is that you are entering business on your own account, and this means you will be subject to a whole new set of laws, rules and regulations. Holiday pay and sick pay are associated with full time employment positions and this safety blanket does not exist for those running their own limited companies.

## Director's duties and responsibilities

Any individual considering setting up a limited company must be eligible to act as a director (e.g. the individual must not be an undischarged bankrupt or subject to a disqualification order).

As you will need to act as a director of your limited company this subjects you to various duties and responsibilities under the Companies Act. It is not easy to summarise the role of a director in a few lines, and it is not a position to be accepted lightly, but as ever the law is only intended to ensure that reckless, incompetent or neglectful behaviour is targeted. You can be assured that I-Pay Accountancy will guide and advise you to make sure you have nothing to worry about.

## Time commitment

We will do everything we can to make contracting life as easy as possible, but there will inevitably be some work that you yourself must be prepared to undertake. For example, you will need to make payments from your limited company bank account to pay yourself and your taxation liabilities as they fall due, but don't worry, we will tell you exactly what needs to be paid and when.

## How long do you intend to contract for?

You should think about the length of the contract you are about to undertake and whether it is appropriate to open a limited company to facilitate this and maybe future contracts. If you want to partially 'mothball' your company as you are between contracts, we have a tailored service that allows all statutory deadlines to be met and the company to remain in existence until needed in the future.

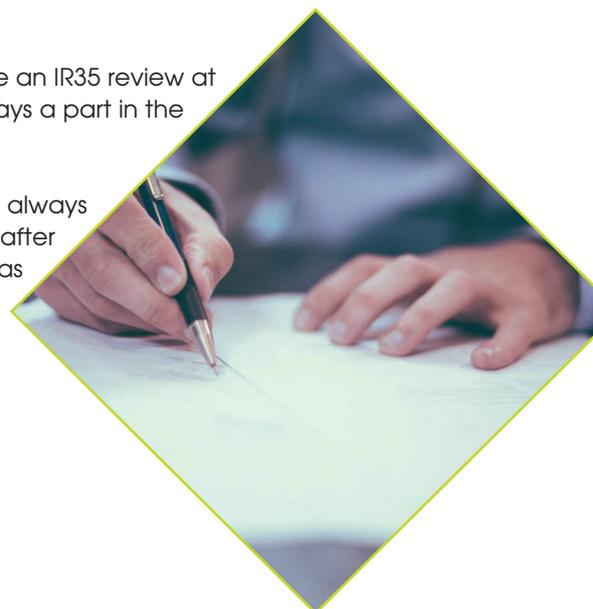
## IR35 Considerations

The Intermediaries Legislation, commonly referred to as IR35, was introduced on 6th April 2000. The aim of the legalisation was to eliminate the avoidance of tax/NIC by the use of intermediaries such as Personal Service Companies (i.e. your own limited company) in circumstances where the individual worker would otherwise for tax and national insurance purposes be regarded as an employee of the end client.

This does not mean that contractors cannot run their affairs through a limited company but it does mean IR35 should be considered if you are a contractor looking to run through your own company. I-PAYE Accountancy can help you here to ensure you get the advice that you need.

As an ACCA practice, professional ethics are at our core, and we believe an IR35 review at the outset is in the contractors' best interests and ensures that the law plays a part in the consideration of whether to run through a limited company.

We will review your contract prior to commencement. However, we always recommend reviewing the actual working practices of an assignment after completion of 3-6 months in a role irrespective of whether the contract was deemed outside of IR35 at the outset.





# INITIAL TAXATION PLANNING AND OTHER CONSIDERATIONS

It is important that you receive the right advice from the outset in all areas of taxation in order that you do not miss out on any benefits of running through your own limited company. We will guide you through the VAT registration process.

Setting salary and dividend extraction policy correctly will provide you with an efficient outcome from a taxation and national insurance point of view and can also assist when addressing the specific issues facing contractors in relation to IR35.

It is vital to ensure that all relevant expenses are claimed and set against income to reduce taxable profits and we can explain to you what can be claimed in this respect. One of the key considerations here is making sure you know how you are going to keep a record of all expenses incurred as this will prove invaluable should HMRC seek to challenge expenses that have been charged to your company.

Again, we will talk you through how your expenses should be recorded so that any queries raised by HMRC can be addressed fully and quickly.

Setting the correct shareholder structure at the outset is also important and I-PAYE Accountancy can advise you in this area such that you get it right from the outset.

Keeping adequate books and records is a requirement of the Companies Act and therefore you should think about how much you want to do yourself and how much you want your accountant to do. At I-PAYE Accountancy we are happy to do as much or as little as you want us to do and we can discuss your requirements with you. Most clients are happier to get us to carry out their invoicing and maintain cashbooks for them, but if this is something you are comfortable doing and wish to do it yourself then no problem.

Cash flow is always a consideration for any business, but especially on start up for contractors who may have periods of being between contracts or periods of illness and therefore having no income in the company to take salary/dividends out of. It is therefore advisable to think about building up some reserves in your company for that rainy day.

## INVOICING, COLLECTING YOUR CASH AND REMUNERATION

### **Invoicing and collecting your cash**

Invoicing your client accurately and promptly is clearly a minimum requirement for any contractor running his or her affairs efficiently, but sometimes contractors simply do not have the time to keep on top of this task. Should you choose us as your accountants and want us to carry out this task for you then that is no problem. You can be assured that we will treat the raising of your invoice as urgent and give it the priority it requires.

As we fully understand the importance of collecting your cash on time, we will contact your agency on your behalf to chase collection if you wish us to. Most of our clients value this service as they do not have the time to do this each time they raise an invoice. We find that building up relationships between I-PAYE Accountancy staff and the agencies our contractors work through is very effective in collecting cash on time. We never go in heavy handed, but we always ensure, diplomatically that our clients' affairs are prioritised.

Under our comprehensive service, all of the above is included in the price. Using dedicated software we will ensure that your bookkeeping is maintained on a timely basis such that the information you see online is always up to date.

## Remuneration

Once your cash has been collected, the next step is to calculate how much you need to put aside to settle taxation and national insurance liabilities and therefore how much is available for you to withdraw from the company. I-PAYE Accountancy operates an online accounting system FreeAgent, which allows contractors to see exactly where their company's affairs are up to whilst they are on the move. We do the bookkeeping so you can concentrate on running your business.



## The benefits of using FreeAgent through I-Payee Accountancy

With FreeAgent you can:

- Create invoices in any currency, with proactive payment chasing
- Keep track of expenses and bills
- View projected Income Tax, VAT, PAYE and Corporation Tax liabilities and due dates
- Automatically generate dividend vouchers
- View accounts and records wherever internet access is available
- Scan expenses in using an App
- Switch between contracts that are inside of IR35 and those which are outside of IR35



# MONTHLY, QUARTERLY AND ANNUAL DEADLINES

## Introduction

Apart from ensuring that your invoicing is done on time every time and that your cash is collected promptly, I-Payee Accountancy will ensure that all of the statutory deadlines placed on your limited company are met, although this will require some input from you as director.

## Monthly and quarterly deadlines

The monthly payment in respect of PAYE and NIC in most cases (unless deductions are less than £1,500 a quarter in which case quarterly returns can be made) is due on the 19th of each month. All deductions made in the previous calendar month need to be settled on this date. Real Time Reporting ('RTI') is used to report all salary payments to HMRC as they are made. We submit RTI reports on your company's behalf.

Your company may be selected to supply statistics for the National Statistical Office monthly. We will complete and submit these for you.

VAT returns can be submitted monthly or quarterly. Unless you are in a repayment situation then quarterly returns and payments are more appropriate than monthly from a cashflow point of view. We will ensure that you only pay the correct VAT due and that your returns are completed and submitted on time.

If you have asked us to carry out the bookkeeping on behalf of your company we will hold the records needed to submit VAT returns so it could not be easier as we will let you know how much you have to pay well in advance of the deadline. If cash accounting is appropriate for you then we can assist you on this and implement it for you to improve cashflow for your company.

# JAN 31

## Annual deadlines

The two main annual events are the preparation and submission of statutory accounts to Companies House and HMRC, together with a Corporation Tax return. We will take care of these on behalf of your company.

In addition, there is an annual confirmation statement detailing directors, shareholders and other statutory information that needs to be submitted to companies house and again we will complete this for you.

Self-assessment returns must be completed and submitted each year by 31 January. Should you wish us to complete this personal return for you, we charge £100 (plus VAT) for non-complex cases.

## DORMANT COMPANIES AND CLOSING DOWN YOUR COMPANY

### Dormant companies

In cases where our clients are between contracts, or simply wish to have a break from contracting, it is possible to keep the company alive by continuing to meet all statutory deadlines such that you can pick it up again in a few months or even years, should you wish to trade through it later.

I-PAYE Accountancy offers a 'dormant' service of £35 (plus VAT) per month for limited companies that are not trading but are still required. This ensures that the company ticks along by meeting all of its accounting and taxation requirements.

### Closing down your company

If you reach the end of your contracting career or wish to close down your company for any reason we can assist you with this to ensure that all of your liabilities are settled and that the affairs of the company are correctly dealt with.

On closure there are two main options available;

i) distribute all funds via final dividend distribution, or ii) treat the final distribution as a capital distribution thereby using up annual CGT allowances and ensuring any entrepreneurs' relief available is claimed.

We have advised many contractors on the optimum strategy to adopt upon closing down their company.



# OUR SERVICES AND COSTS

We have one fixed fee service but we are always happy to discuss tailoring our service and fees to suit the specific requirements of our clients as we appreciate that every contractor is unique. Our comprehensive service (£125 per month plus VAT) includes the following;

## Monthly/quarterly services

- Expense advice and verification
- Calculation of monthly/quarterly PAYE/NIC liabilities and preparation/submission of returns
- Advise each month (or upon request) as to the available funds to withdraw from the company
- Monthly bank reconciliation(s) to the company bank account(s)
- Calculation of monthly/quarterly VAT liabilities and preparation/submission of VAT returns

## Year end services

- Prepare year-end accounts for review by director
- File accounts online with Companies House
- Complete Corporation Tax return for review/signature by director
- Complete the annual confirmation statement

## General

- VAT advice relating to your company
- Advice on the directors duties and responsibilities
- Advice on Corporation Tax and other tax matters
- Accounting and bookkeeping service

## Monthly/Quarterly/Year end services:

- Agency/client invoicing upon instruction (weekly or monthly)
- VAT and PAYE returns completed online
- Cashbook maintenance
- Fully comprehensive insurance (usual premium would be £500-£800+ p.a.) with the following clam limits:
  - Employers Liability (incl. Offshore) £10,000,000
  - Public Liability. (incl. Offshore) £5,000,000
  - Professional Indemnity £2,000,000
  - Personal Accident (including commuting to/from work) £20,000

# PERSONAL TAXATION SERVICES INCLUDING SELF-ASSESSMENT COMPLETION

We understand that Personal Tax, along with other Taxes, can be one of the most difficult for contractors to get to grips with whilst they are working hard in their own chosen field of expertise. When an individual moves into contracting from employment, this constitutes a big change in their circumstances which presents them with new challenges but also new opportunities.

Here at I-PAYE Accountancy we can explain your responsibilities and we will take the time to ensure you are aware of how your liabilities are calculated to ensure you are aware of the possible planning opportunities available to you to structure your affairs in the optimum way.

We can prepare your self-assessment return if you have a single source of income for £100 (plus VAT). If you have a more complex return then we will assess the work required and let you have a fixed quote to carry out the work. Call your Account Manager or **Rob Hall on 0151 443 6838** for a friendly discussion about your Personal Tax requirements.

## CONTRACTORS COMING TO WORK IN THE UK

We have extensive experience of dealing with non-UK nationals coming to the UK to carry out contract work. We ensure they receive the best advice for them which will be dependent upon their own circumstances. We guide our clients through everything they need to know in order to optimise their unique position whilst ensuring they remain compliant in the UK.

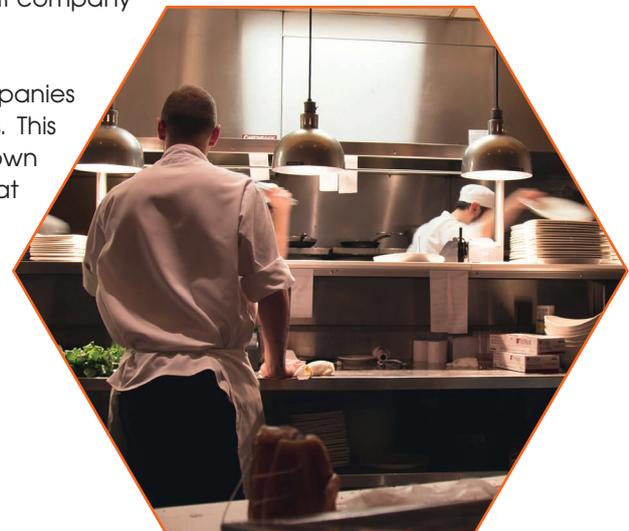
### We can assist with:

- How to register with the relevant authorities
- National Insurance advice on coming to the UK
- Taxation advice on coming to the UK
- Work permit applications
- Setting up a UK Limited Company and advising on what payment models are most suitable
- Acting as a registered office in the UK
- Setting up a UK bank account
- Advising what expenses can be claimed (e.g. flights home, accommodation etc.)
- Consideration of double taxation treaties
- Pension scheme considerations

### An introduction to IR35

Before IR35 was introduced, many contractors were operating as self-employed individuals. This was perceived as a significant risk by HMRC in respect of potential non-payment of tax by individuals and therefore HMRC introduced rules that passed on any unpaid liabilities to the recruitment company that engaged the self-employed person.

Inevitably, this presented an unacceptable risk to recruitment companies who immediately refused to contract with self-employed individuals. This had the effect of pushing contractors down the route of opening their own limited company such that any unpaid tax bills would remain with that company if not settled and crucially they would not be enforceable against the recruitment company.



The financial benefits of running through a limited company were not lost on the contracting community which fuelled a steady growth in freelancers running through their own limited (or 'personal service') companies in the late 80's and 90's. However, HMRC soon realised that this was resulting in the taxation generated from this group of workers being significantly less than desired and as a result IR35 was introduced.

IR35, known as the Intermediaries Legislation, was effectively introduced to test the relationship between the individual freelancer and the end client such that the true employment status was established.

Prior to the introduction of the legislation, an individual could avoid being taxed as an employee on payments for services and avoid paying class 1 NIC by providing those services through an intermediary. The worker could take the money out of the intermediary, normally a Personal Service Company, in the form of dividends instead of salary. As dividends are not liable to NICs, the use of a dividend remuneration strategy results in the worker paying less in NIC's than either a conventional employee or self-employed person and PAYE would not apply to the dividends.

The legislation ensures that, if the relationship between the worker and the client would have been one of employment, had it not been for an intermediary, the worker pays tax and NIC's on a basis which is fair in relation to what an employee of the client would pay.

When attempting to establish IR35 status it is important for contractors to recognise that it is not only the contract between them and their recruitment company that is important. The relationship under a notional contract between the contractor and the end client will need to be considered, based upon the actual working arrangements. This may be logistically difficult as you may not be able to establish your working practices before you commence your contract.

It is clearly important to consider IR35 in advance of accepting contract work. A contract that is deemed outside of IR35 may be considered far more lucrative by a contractor to a contract that it deemed to be inside of IR35 and may therefore have a significant bearing on which contract to accept.

**In short, the key issues that need to be considered in relation to whether IR35 applies are as follows:**

- i) **Right of substitution-** if the personal service of an individual is required and the contractor has no unfettered right of substitution then the contract may fail a review under the IR35 in this area.
- ii) **The degree of control over how the work is to be performed will be considered in detail and if it is deemed too much control is exerted by the end client then the contract may fail an IR35 review in this area.**
- iii) **If a mutuality of obligation exists, for example an obligation on the end client to provide ongoing work to the contractor and an obligation on the contractor to perform that work then it may be that the IR35 applies in this aspect.**
- iv) **If other business factors indicate that the contractor is in business on his/her own account, e.g. the contractor carries business risks and remedy poor workmanship at his own cost, the contractor provides his/her own equipment and operates a proper business structure then these factors will help in indicating that the contract is outside of IR35.**

The above is not intended to provide definitive advice on what constitutes a relationship/contract being caught by IR35 as each case will be different and professional advice on each assignment should be sought in order to avoid costly mistakes.

It should also be noted that it is not just how a contract is written that will determine whether IR35 applies, it is the actuality of what happens in practice that need to be examined. Only those professionals with full knowledge of the law and case history will be qualified to provide advice on such issues and we can ensure that you are appropriately advised in this area.



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