PH Accountancy

FAQ's Limited Company

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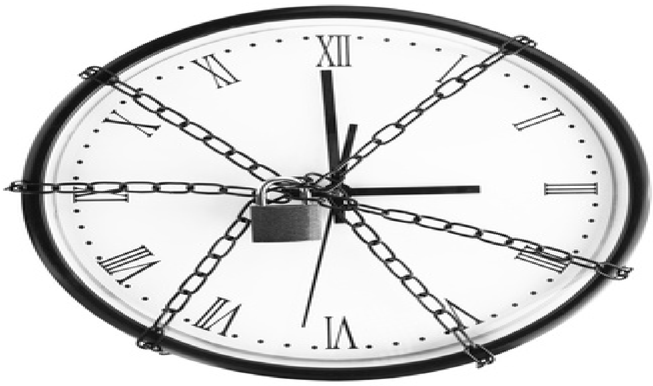
Q. What should consider when starting up a business?

Starting up a new business is both an exciting and worrying time. Please see this link for our free download: - http://www.phaccountancy.co.uk/resource-centre.html



Q. What is the deadline for my limited company accounts to be submitted?

For your first year of trading, you need to submit your accounts 21 months after the date that you registered with Companies House. Thereafter, your annual accounts should be submitted 9 months after your company's financial year ends. Your company tax return is due 12 months after your accounting period for corporation tax ends.

Your company accounts are due to be submitted 9 months after your company year end. This is also when any corporation tax will need to be paid.

Q. When do I need to pay my corporation tax?

You are responsible for ensuring that all corporation tax is paid 9 months after your company's financial year ends (which will be the same date as your annual accounts are due to be submitted). We do take every opportunity to remind you of the date your corporation tax should be paid by however, if you are ever in any doubt, please contact us and we will be happy to advise you.

Q. How do I pay our corporation tax?

Please be aware that HMRC do not send Corporation Tax Demands after the submission of your Company Tax Return and therefore, you need to ensure that any outstanding corporation tax is paid in full 9 months after your company year end.

We will always advise you of any corporation tax liability when we send out your company accounts, we will then remind you of this when we send you your company tax return. At this point, we will also provide you with the payment reference needed for you to pay the tax due.

You can pay either by following https://www.tax.service.gov.uk/pay-online/corporation-tax or by using your online account using the payment reference that we will provide to you. Alternatively, you can pay this over the phone and HMRC Corporation Tax can be contacted on 0300 200 3410.

For more information, you can follow https://www.gov.uk/pay-corporation-tax and this will detail all payment methods.

Q. What happens if I don't pay my corporation tax on time?

If you don't pay your corporation tax on time, HMRC will charge you interest. Interest is charged from the day after the tax should have been paid and the charges are automatic.

Q. What is a registered office?

A registered office is where letters from both Companies House and HMRC are sent to. It is beneficial to use us as your registered office as correspondence from Companies House and HMRC must be dealt with by your accountant. Therefore, this saves both us as your accountant and you as a client, time. We don't charge a fee for being your registered office.

Q. What is the PSC Register?

The PSC Register is a register of people with significant control over a company. If you own more than 25% of the company shares, you are classed as having significant control, equally, if you actually run the business but hold no shares, you must declare yourself as a PSC.

This is a statement confirming up to date company information and is required by Companies House annually.

Q. How should I calculate a claim for use of part of my home as an office?

First, work out the typical costs of running your home in a year, including, for example, rent or mortgage interest (do not include the capital element of repayments), utility bills, insurance, council tax and repairs and maintenance. Then apportion those costs amongst the number of habitable rooms in your home, such as reception, dining, and bedrooms. If you have a single room set aside as an office, then you may claim that room's proportion of overall household costs as an expense within your business. If your business only operates, say, three days each week then consider whether it's appropriate to reduce your claim proportionally.

Q. What is the director's salary?

A director's salary is one of the most tax efficient ways to withdraw an income from your business. The director's salary maximises the use for national insurance allowance an individual receives.

Q. As a director/shareholder of my own company, what's the maximum dividend I can take out?

Legislation dictates that a company must not pay a dividend unless it has distributable reserves out of which to do so. Distributable reserves include retained profits from previous years but are also reduced by any losses.

A company's most recent annual accounts typically include an amount in the balance sheet described as 'retained profit carried forward' which is a good starting point. However, director(s) must also consider the company's financial performance since the date of those accounts before authorising a dividend.

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Most modern cloud-accounting packages include a live indication of distributable reserves within the system's dashboard. Whether director(s) should rely on that figure depends upon the quality of the company's bookkeeping!

Bear in mind that the maximum dividend payable is one thing, but simply paying the maximum may not be the most tax-efficient way of withdrawing money from a company.

Q. Why do I have an overdrawn directors loan account?

An overdrawn directors loan account means you have withdrawn more funds from the company for yourself than profits allow. Before taking a dividend from a company, you should review profits and allow for the corporation tax on these profits and leave this money within the company, then any excess is available for you to withdraw as a dividend.

If you were to have an overdrawn directors loan account, tax would be due on this, however, this tax is reclaimable once your overdrawn directors loan account has been cleared by completing a form to submit to HMRC 9 months after the repayment has occurred.

Q. Do I have to have a separate bank account?

There is no legal requirement for you to have a separate bank account and while it may be tempting to start your new business without one, regardless of whether you are a sole trader or a limited company, it is important to separate your business and personal finances. It makes it much more difficult to manage your business successfully without one.

Q. It's coming up to my company year end, should I spend any more money to reduce my tax liability?

This really all depends if you need to purchase anything. If you need to purchase something and know you'll be doing so in the not so distant future, then this may be the time to consider purchasing as it will be a tax-deductible expense before your year end and save you tax. However, if you are thinking of purchasing just for the sake of it to reduce your tax liability, this isn't necessarily a good idea because to save the tax, you are spending money potentially unnecessarily so it may be more worthwhile foregoing the additional tax due of not purchasing anything else.

Q. What is the difference between financial accounts and management accounts?

Financial accounts are the formal accounts produced by your accountant to present to stakeholders, HRMC, and Companies House whereas Management Accounts are reports produced more frequently and are for internal purposes only (the Management). The usual management reports include a profit and loss statement of actuals which are then compared to a budget or forecast to inform the management team if they are on track to meet forecasted goals. Also, Key Performance Indicators (KPI's) can form a management report which could include items like average sales values, debtor days, staff performance etc.

Q. What is R&D tax relief?

The R&D Tax Relief Scheme is the single biggest funding mechanism for small businesses investing in innovative projects. It rewards companies conducting self-funded R&D work, regardless of whether they are in profit or loss. HMRC statistics show that 16,160 small companies received an average £49,505 in cash payments or tax relief from this government scheme.

Typical R&D projects include in-house software development, engineering design, new product development, solving manufacturing problems and developing new processes. However, estimates indicate that 90% of eligible businesses are unaware they can claim.

To access R&D tax relief, a company needs to prove to HMRC that their technical innovation meets the current legislation and the DBIS guidelines.

The guidelines are for the purposes of Section 837A Income and Corporation Taxes Act 1988. In this context "research and development" is defined for tax purposes and given legal force in Parliamentary Regulations.

Here at PH Accountancy, we understand the details of the legislation and can compile a technical report for HMRC that explains how a company meets the criteria. We also calculate the qualifying costs and submit the relevant documentation to claim back R&D costs in cash or as tax relief.

Our service includes support if there is an enquiry from HMRC through to its successful conclusion.

Q. What would happen during a tax enquiry?

HMRC would issue a letter to both you and your accountants to advise you that a tax enquiry has been launched. Sometimes this may be an aspect enquiry; this is where they only deal with one certain area. It could be an omission of a pension or bank interest etc.

A full enquiry is where HMRC will go through your books in more detail to ensure that your profit has been correctly declared. We would always recommend any investigation be dealt with by your accountants as they have the experience and knowledge to deal with this, to ensure there is minimal disruption to your tax affairs.

HMRC will raise certain queries which will need explanations and quite often, we will have documentary evidence. For example, if you had banked £10,000 into your private bank account, HMRC would want to see the original source of this. If it was a cash endowment then the documentation should be supplied. This highlights the importance of keeping your books and records for at least 6 years.

Once the enquiry ends, an Inspector from HMRC will write to you and advise you of the amendments which they wish to make, as well as any penalties that they wish to implement. Again, your accountants will deal with these and appeal where necessary.