



LCS GUIDE

Establishing a Limited Company and operating on your own can be a daunting process for many contractors. From the moment you engage with Elite, you are allocated a dedicated accountant whose responsibility is to ensure your company runs to the best of its ability. They will ensure all paperwork and payments will be prepared and provided for you to pay HMRC in advance of deadlines. This will allow you to concentrate on what you do best... contracting.

The Key Facts - what you need to know

- As a Director and Employee of a company, you are legally responsible for managing company affairs. As the owner, you will receive dividend income from the company's taxed profits. The amount and frequency of this dividend income is decided by the company Director(s).
- A limited company is a separate legal entity and is subject to rules and regulations under company law, the company exists in its own right.
- You will require business insurances, your accountant can advise you regards companies to speak with.
- As a director of a UK limited company you will be legally obliged to complete a personal tax return each year, Elite can assist you with this return.
- For tax purposes each year, a company will pay corporation tax on its profit.
- In order to trade, you will need a business bank account, speak with your accountant and we can assist you with this

IR35 - what is it and how does it affect you

IR35 is the name given to a tax legislation that is aimed at identifying individuals who are avoiding paying the tax that they should be. The IR35 legislation specifically challenges those people who supply their services to clients via their own company, often known as a 'personal service company', who, in the eyes of the HMRC, could be classed as 'disguised employees'.

The aim of IR35 is to stop those who act like and are treated like employees pretending that they aren't, therefore having the right to all the tax breaks that those working under limited companies receive. This is the core idea behind the term, a 'disguised employee'.

TURN OVER FOR MORE INFORMATION...

Get in touch...

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At Elite, your accountant will go through a status questionnaire with you to help determine if they are speaking with a true contractor or an employee. For each engagement, the question is whether the contract is in the nature of employment as far as the individual is concerned. Tests applied to determine whether an individual is employed or self-employed are used. The 3 main tests are:

Control

A worker will not be an employee unless there is a right to exercise control over the worker. This may be a right to control what work is done, where or when it is done, or, how it is done. Actual control is not paramount; it is the right of control that is important.

The right to get a substitute or helper to do the job

Personal service is an essential element of an employment contract. A person who has the freedom to choose whether to do the job himself or hire somebody else to do it for him, or provide substantial help, is probably self-employed.

Mutuality of obligation

Within a contract there are various mutual obligations - the obligation to perform and be paid for performing would form part of any contract - but the mutual obligations needed for a contract of employment to exist consist of more than this, there needs to be obligation to offer and an obligation to accept future work. The decision regarding your income and IR35 is probably the most important one you will make and should not be taken lightly. The complex nature of this legislation does not make it an easy decision either. You may wish to look at a formal contract review which will allow you to make a judgement on your IR35 status and will also provide evidence to HMRC that you have taken 'reasonable care' in arriving at your decision.

Demonstrating 'reasonable care' is very important in relation to the harsh penalty regime adopted by HMRC. Speak with your Elite Accountant if you feel a contract review would be beneficial.

The process of setting up and running your company

- You've decided to set-up your own company, congratulations and welcome to the world of contracting!
- At Elite, we work differently, you won't be speaking to a Salesperson but a qualified accountant who specialises in management accountancy.
- Your accountant will discuss various company structures and you will need to register your company and incorporate it. Elite can assist you with this for a charge of £60 +VAT, all the paperwork can be left to us and we can have your company incorporated in 24 hours.
- You will need to set-up your own business bank account and arrange insurance, again your accountant will advise you on the above.
- By acting as your accountant, they will issue you with a letter of engagement which will explain the work your accountant will do for you. On submission by yourself of the correct paperwork, your accountant will handle all your book-keeping and invoicing requirements as well as providing you with management accounts information allowing you to see how your company is performing. Elite believe in providing a total service to our clients so you can concentrate on your profession. We provide all of the above for £1560 per year +VAT. This cost is broken down into a monthly cost of £130 is and taken monthly by direct debit.

- Your accountant will take care of the administration of your company and provide advice to ensure you are making the most of trading through your own business. Responsibility for the Limited Company lies solely with the Director and you need to ensure all relevant paperwork and documentation is forwarded to your accountant in a timely manner.
- Every company must have a Registered Office to which important documents can be delivered to the company. Whilst it must be a physical location it does not need to be the company's trading address, it can be Elite's address for example.

What responsibilities do I have?

As a director, you are required to act in the best interests of the business in order to promote its success. In doing so, you should act in good faith, exercise a degree of skill and care and you must obey the law.

Under company law, you are responsible for preparing and delivering various statutory returns to Companies House, including the annual financial statements. You also have a responsibility to check that the correct amount of tax, VAT and National Insurance contributions are paid to HM Revenue and Customs (HMRC) on time. You must ensure that the company maintains accurate accounting records to enable preparation of the financial statements, as well as other returns for HMRC.

Elite will assist you with the preparation of all these returns in addition to providing details of any payments due to HMRC in a timely manner. This assistance however does not relieve you of the responsibilities as we are seen to be acting upon your instructions.

How do I withdraw funds from the company?

The company can pay you a salary in your capacity as director/employee and can pay you a dividend in your capacity as a shareholder. The amount you take as a salary is decided upon by yourself, unless your contract income is caught within IR35 then you must follow HMRC's 'deemed salary' calculation.

If your contract income is outside of IR35 then the company will usually have a profit after tax that can be declared as dividend income for you. Again you can decide whether to take as little, or all, of the available profit as a dividend. Your Accountant at Elite will explain your options so you understand the tax consequences of your decisions and to ensure you act in the most beneficial way.

Do I need to operate a separate company bank account for the business?

From day one you must understand that any money the company earns belongs to the company as it is a separate legal entity. You must maintain a company bank account where you, as the director, will be a signatory on the account taking full control and responsibility for all movement of funds.

We would advise that you do not treat the company account as though it was your own personal account and only withdraw funds to yourself in the correct manner. As the director, the choice of whom to appoint as company bankers lies entirely with you.

Can I have my spouse as a shareholder in the company?

Yes, you can set your company up with your spouse being a shareholder in the company, although whether you wish to do this will depend on your own personal circumstances. Before we set up your company we will advise you on the best way to structure your business.

We would suggest that if your spouse is to be involved with the business, they are also appointed as a director of the company.

**Start your contracting journey today, contact Elite on
0800 612 9674 or sales@elitecontractors.co.uk**

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