

The Obligations of a Limited Company Director

See what you'll have to do when you
choose to run your own business



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Foreword



Hello and welcome to our guide to the Obligations of a Limited Company Director.

Whether you are at a crossroads in your career, or are looking for more information on the ways to operate your business as a freelance professional, this guide will provide you with the information on what you have to do if you are considering the option of operating through a Limited Company.

No matter which route you choose to take, this is a very big decision that can't be taken lightly, and it can be a very rewarding path to go down.

When you become the Director of a Limited Company, there are rules and regulations you have to follow. The good thing is that as your accountant, we make things A LOT easier for you. So there's no need to be afraid by the complexities involved with what we cover in this guide, unless you think you'll be able to run things all by yourself!

As an online accounting service, we want you to know that whatever the situation, you will always have support when it comes to your accounts.

Thanks for reading,

The Boox Team

Introduction



As a Director of a Limited Company you have a number of legal obligations which you are required to take into account when you start your business. Of these, the issues surrounding company tax legislation are some of the most important.

Adherence to HR and Legal legislation shouldn't be forgotten, but in this guide we will be focusing on the obligations Directors have to two of the main UK authorities: Companies House and HMRC.

This is an easy to use guide that provides you with an outline of the information you need to understand exactly what is expected of you when it comes to the legal responsibilities and tax legislation of these two authorities.



Who are Companies House & HMRC?

While most people will have already heard of HMRC, Companies House is responsible for incorporating and dissolving Limited Companies. It also manages the information it collects from all UK registered businesses, and makes it publicly available.

When it comes to being the Director of a Limited Company, HMRC collects your personal tax, and the company's VAT, PAYE, National Insurance Contributions, and Corporation Tax.



An introduction to Limited Companies

A Limited Company is a private organisation that you can set up quickly and easily. There are very few restrictions on who can set up a Limited Company, and who can become a Director. This however brings a certain level of responsibility, with the Directors taking ownership for everything that the company does.

Financially, it is separate from your own finances and once the appropriate tax has been paid on it, all of the profits made are owned by the company and available to be shared.

There are many benefits to being a Limited Company such as:

Status - Having Limited status means that you are better protected in case anything should go wrong, and as long as no fraud has taken place and you have not given personal guarantees, you will not be personally liable for the company's financial loss.

Tax efficiency - Being the Director of a Limited Company you are able to decide your own salary and also decide when to take dividends so you can be more tax efficient.

Being a Limited Company also offers a higher level esteem to prospective clients.

What is a Limited Company Director?

While every Limited Company has shareholders, the Director is responsible for running the company and doesn't necessarily have to own shares.

You can become a company director unless you are an undischarged bankrupt, or have been disqualified from being a director.

General Obligations

From The Companies Act 2006, legally as a Director you must try to make the company a success, while making decisions which will benefit the company rather than you personally.

All contracts must be made with the company rather than the individual and you must follow the rules shown in the articles of association, which are the rules you all agree to about how the company will run.

You must also inform other shareholders if you may benefit from a transaction personally.

Chapter One:

Your Obligations to Companies House



Companies House incorporates and dissolves Limited Companies. It administers all aspects of the company register and manages the information, making certain information available to the public.

When you decide to start a Limited Company it is Companies House with whom you need to register. Your obligations to it include submitting your Annual Return, Accounts and any changes. It is where all of the information about you as a Director is held.



Annual Return

As a Limited Company Director you are obliged to submit an Annual Return Form known as an AR01, which can either be posted in or completed online. Companies House charges £40 for paper submission or £13 for online.

The AR01 is a legal requirement and once you have filled it out it gives Companies House confirmation of the information about the Limited Company. This includes details of the Directors, the company's registered office address, service (correspondence) address, the shareholders and share capital. If you have a Company Secretary, this information will also be required as part of the AR01.

The date on which your Annual Return is due is typically the annual anniversary of the company's creation or the last annual return. You will then have 28 days after in which you can send the form without being penalised, so it's best to ensure that you always pop the date in your diary for future reference or register for reminders.

If you do not submit your AR01, your company may be struck off the Register of Companies, which would be a costly sum to resolve.

Boox Tip



If you are concerned that you might accidentally miss some information, or not send your Annual Return in on time, we can make sure you avoid such issues by ensuring that your AR01 is adequately filled in and delivered on time.



Accounts

As a Limited Company Director, as well as your Annual Return, you are obliged to submit annual accounts to Companies House, which are made available for public inspection.

The accounts must be an accurate and fair insight into the finances and should 'report on the performance and activities of the company during its financial year'. It is very important that all companies keep records of their accounts regardless of whether or not they are actually trading.

The annual accounts record must include information about money received and expended by the company, as well as a record of the assets and the liabilities of the company.

Unless filing the accounts for the first time, the time allowed for submission is either nine months from the accounting reference date (ARD), which tends to be at the end of the company's financial year and the anniversary of it, for a private company, or six months from the ARD for a public company.

For a new company, the first ARD is the last day in the month in which the company's first anniversary falls, with all subsequent ARDs falling on the same date each following year, and while it is possible to change the ARD, there are restrictions in doing so.

The Directors of the company are obliged to prepare the accounts for each financial year. Within these it is imperative that you include the profit and loss. There must also be a balance sheet signed by the Director, as well as notes to the accounts.

Larger companies may require an audit report, and groups of companies may require consolidated accounts.

You should also include a Directors' report with a business review if the company doesn't qualify as small. Companies House defines a small company as one that meets at least two of the following conditions:

- **Annual turnover must be £6.5 million or less**
- **The balance sheet total must be £3.26 million or less**
- **The average number of employees must be 50 or fewer**

Small Companies can submit abbreviated accounts to Companies House which restricts the information available to the public. Full accounts must be provided to each shareholder.

There is no charge for filing accounts, although it is a criminal offence should you fail to submit them on time. The penalties depend on the length of delay in submission and for a Private company range from £150 for the first late filing offence and less than a month long to £1,500 for over six months. Public companies will see fines ranging from £750 to £7,500 respectively. The fines are then doubled if they are fined for being late two years in a row.

As a worse case scenario, Companies House can even have the company struck off the company register, and prosecute you as a director for not filing accounts.

It is so important that Directors are aware of the legal implications when it comes to submitting their accounts. This is where we can help by ensuring all the required documents and details are fully completed and submitted.

Chapter Two:

Your Director Obligations to HMRC



HMRC is the authority by which personal tax and corporation tax is collected, alongside VAT, PAYE and National Insurance Contributions.

Once you have set up a Limited Company you are obliged to tell HMRC a number of things, which include the date the company started, its name and registered number as well as the business address. You must also inform HMRC when you start trading, of the actual kind of business you run, the day you will be making your annual accounts up to and whether or not you are part of a group or have taken over a business that already existed.

As a new business, HMRC will send you a CT41G form which includes your Company's Unique Taxpayer Reference. You should receive this within a few weeks of the business being registered.

The CT41G will provide details on how to pass your information to HMRC, as well as instructions for setting up the company's online HMRC account so that the Company Tax Returns and Corporation Tax can be settled.

It is imperative that HMRC has been notified that the company has begun business activity within three months.



Corporation Tax and your Company Tax Return

At the end of the company's financial year, when the accounts have been sent to Companies House, you are obliged to pay Corporation Tax which must be paid on any taxable profits the company makes including 'trading profits', investments and chargeable gains.

When it comes to paying Corporation Tax, it is your responsibility as a Director to ensure it is paid. You will not receive a bill for it, it is completely up to you to figure out how much is owed – and you do this by completing a Company Self-Assessment Tax Return.

Once you have calculated your tax due and settled your Corporation Tax bill with HMRC, you must report Corporation Tax by filling out a Company Tax Return form known as a CT600.

Your return must be filed even if you made no profit during the financial year and the return can cover a maximum period of 12 months.

Whilst abbreviated accounts can be filed with Companies House, full accounts must be sent to HMRC in IBRL format.

The deadlines for each Company Tax Return differs again depending on their individual financial year.

- Any tax due must be paid within nine months and one day after the end of the accounting period.
- The CT600 must be submitted within 12 months of the end of the accounting period.
- It is also required that you keep business records for six years from the end of an accounting period.

Penalties for submitting a Tax Return to HMRC late are:

- £100 for being one day late.
- Another £100 for three months.
- After six months HMRC will estimate the tax bill of the company and add an additional ten per cent to the unpaid tax.
- Another ten per cent being added to this after 12 months.
- Should your returns be late three times in a row, the £100 penalties will be increased to £500 each.



Income Tax, VAT, PAYE & National Insurance

Directors are responsible for completing a Personal Self-Assessment income tax return each year unless the company is a non-profit making company, or the Director does not receive any payments or benefits from it.

Where applicable, it is also the Director's duty to ensure that employees are paid at least minimum wage and correctly with their PAYE and National Insurance deductions being taken into account and forwarded on to HMRC. You will need to report payroll information to HMRC on or before anyone is paid, or monthly if no payment are made, to comply with the Real-time Information (RTI) legislation.

As a Director, you are obliged to submit your VAT returns (if you are VAT registered) every three months to HMRC, regardless of whether or not you have any to pay or reclaim. It must include the total sales and purchase, the amount of VAT owed as well as the amount which you can reclaim, and what your VAT refund from HMRC is.

You are also required to ensure that the company registers for VAT on or before your turnover exceeds £81,000 per annum.

In summary



All of the this may seem a bit daunting and confusing, but the most important thing to take away from this is the fact that as a Limited Company Director, you are accountable for your company's tax and legal profile. Your role is taken very seriously by both Companies House and HMRC.

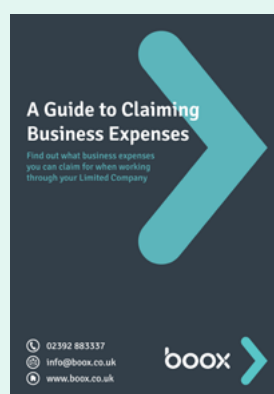
Should you not comply or simply not fully understand your obligations, then you are at risk of some very damaging fines and even prosecution in extreme cases.

This is where it is vital you take on the right type of advice to help guide you when you start your business. It is well worth the time investing in an accounting service, such as the ones we provide.

An accountant will help you deal with most of your obligations we've covered in this guide, whilst also providing advice on tax efficiencies and your business finances, leaving you more time to focus on running your business. Remember though, they cannot be accountable for your obligations to Companies House or HMRC, these will fall directly on your shoulders.

Mistakes can be made when you have no professional experience in dealing with this side of a business and even the smallest slip up that you aren't aware of can have serious implications for yourself as a Director.

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Ready to get started?

For a no obligation discussion about our service, or the best route for your freelance career, get in touch using the details below:



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