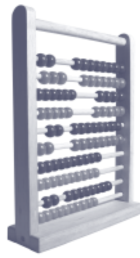

Incorporation Help Sheet

The advantages and disadvantages of incorporating a business are quite complex and as every business is unique it is important to ensure that you take individual advice on your specific circumstances before any decision is made.

The limited company

A limited company is a legal entity in its own right. This means that it is able to enter into contracts with third parties and own assets. Each company must have a minimum of one director and one company secretary, although this is changing under the Companies Act 2006. The directors are responsible for safeguarding the company's assets and ensuring that they are used in the most effective manner to meet the stated aims and objectives of the company. Ownership of the company is divorced from its management as it is the shareholders or members who own the company but they do not have any say in the day to day running of the business.

It is possible to be both a director and shareholder and the majority of private limited companies are 100% owned by the directors.

The final consideration is that whilst the company has unlimited liability the shareholders' liability is limited to their investment in the company. This means that a company could be sued for the value of its balance sheet, but the shareholders would not be risking their own personal assets as they do as a sole trade or partnership. The issue of director responsibilities needs to be considered too, as they may be faced with action against them for negligence or breach of their fiduciary duties.

Records and deadlines

A company is required by the Companies Act to ensure that its records are maintained to a reasonable standard and there are far more stringent reporting structures and deadlines imposed upon it as a result of the limited liability the shareholders enjoy.

The format in which the accounts are presented in prescribed by the Act and all companies must follow this to allow for a meaningful comparison. Further all companies are required to present their accounts to Companies House within ten months of the year end (reducing to nine months under the 2006 Companies Act) and a failure to do so will lead to a penalty and possible criminal action against the directors, although the more likely outcome is that the Registrar of Companies simply moves to have the company struck from the register.

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A company must also deliver an Annual Return to Companies House detailing all of the shareholders, directors, company secretary and the registered office. It is considered important that third parties are able to research who is in control of a company and its financial position prior to doing business with it. As a company makes profits it must account to these to HM Revenue and Customs in the form a Corporation Tax. The tax is due to be paid within nine months and one day of the company's year end and the Corporation Tax Return must be filed within one year of the year end to avoid a penalty.

Tax planning

The main motivator for incorporating many businesses are the tax planning opportunities that arise. As already stated, the company is taxed on its profits for the year under corporation tax. This is currently at the rate of 20% for small companies (Profits chargeable to Corporation Tax under £300,000 per year) rising to 22% in 2009. The shareholders and directors however, are taxed on their income from the company. This means that a director/shareholder who falls outside of the minimum wage legislation can draw a minimal salary as a reward for working as a director, say £500 per month and pay tax under PAYE on a very small part of this and draw the balance of their income as a dividend as a return on their investment as a shareholder. On the basis that the company has made sufficient post corporation tax profits, and the shareholders dividend did not take their total income in the tax year, (no income from other sources such as bank interest or rent) then there would be no further tax to pay.

Practical aspects

Whilst there are some changes that you would be required to make the day to day operation of the business would effectively remain unchanged. If you clip poodles as Bob's Poodle Parlour today, you would clip poodles as Bob's Poodle Parlour Limited tomorrow with no other discernable changes.

You will however need to do the following: include your company number and registered office on your letterhead, open a bank account in the company's name, register and possibly transfer the existing VAT number; set up a payroll scheme, update your insurance, inform your suppliers and inform your staff and reassure them that nothing has changed (they are covered by the TUPE regulations).

Should you require further information on incorporation your business please do not hesitate to contact us on 01793 616284.

This helpsheet is intended for information purposes only and advice should always be sought before making decisions that could affect your business.