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McBoffin & Company Ltd

HOW TO SET UP A PRIVATE LIMITED COMPANY IN THE UK?

(step-by-step guide)

CONTENTS

PRIVATE LIMITED COMPANY

Who is it for?

- Anyone who wants to build a business and employ others, rather than work as a self-employed individual
- Anyone who wants to protect their company name, build a brand, work for B2B clients and win large contracts
- Entrepreneurs who want to attract private investment
- Sole traders with high profits who would like to be more tax efficient
- Sole traders who plan to sell their business in the near future (if they've developed a large local or online client base)

What do you need?

- At least one shareholder and one director (can be the same person)
- Company name that complies with government regulations
- Registered office in the UK (can be your home address)
- Memorandum and Articles of Association (available at Gov.uk)

When do you need to register?

Your limited company must be registered before you start trading. If you've started trading without registering a company, then you`re effectively a sole trader and legally required to inform HMRC when you started the business activity. Once you complete the company registration process you can switch to trading as a limited company.

Who do you register with and how much does it cost?

You need to register your business with Companies House. You can register:

- By yourself, online application – £12; takes up to 24 hours.
- By yourself, paper application – £40; takes 8 to 10 days.
- By yourself, paper application – £100; same day service
- Hire a formation agent – £30 - £100 (price usually includes registered address and director's service address); takes up to 24 hours.
- Hire an accountant – more expensive than other options, sometimes free if you sign up as a client; takes up to 10 days.

You also have to register your newly formed company with HM Revenue & Customs for corporation tax, VAT (if you expect a turnover of more than £85,000) and PAYE (if you plan to have employees). There's no registration fee.

THE REGISTRATION PROCESS

STEP 1: Choose a name for your company

The rules

When choosing a name for your company, you have to follow certain rules. For example:

- The name must end in either 'Limited' or 'Ltd'; or the Welsh equivalents 'Cyfyngedig' and 'Cyf' in case it´s registered in Wales.
- The name cannot be offensive.
- It cannot be the same or too similar to another company's name or trade mark.
- The name cannot contain a "sensitive" word or expression, or suggest a connection with government or local authorities unless you have a permission (e.g., "accredited", "architect", "British").

Other restrictions, as well as the list of sensitive words and expressions, and who to contact for permission is available at Gov.uk.

Name availability

To check if the name you want to use is still available, you can do:

- a search on the Companies House website that has information about all businesses registered in the UK.
- a trade mark search on the Intellectual Property Office website. There are 45 different trade mark classes, each relating to a different industry, and you should be concerned only about the trade marks in the class your business belongs to.
- a Google search, if you plan to operate in international markets and want to avoid potential name disputes outside the UK.

In addition to the registered name, your company can have a trading name (also called "business name") which should be registered as a trade mark to stop others from using it.

Other things to bear in mind

- Clients will expect you to have a website, so make sure there is a matching domain name available (e.g., companyname.com). How to purchase a domain name is explained in our free guide Everything you need to build a website.
- The name should be easy to pronounce and remember.
- If you plan to expand to other regions, avoid using local names.
- If you are developing a business to sell it, avoid naming the company after yourself.
- Names that start with “A” or “B”, will get your business listed at the top in most directories.
- You can file a name change with Companies House anytime (£8, if done online).

STEP 2: Choose a registered office address and directors´ service address

Registered office address

This will be your company’s official address, where all HMRC and Companies House mail will be sent and which will be displayed on all company documents (invoices, emails, brochures, website, etc.). It’s also where you should keep your company files and accounts so that they are available for inspection by HMRC and others. Your registered office address has to be in the UK and cannot be a PO Box, unless you have the full address including the street name and number. You

can, but you don’t have to trade from that address. When choosing your company’s registered office address, the main considerations are:

Jurisdiction - Although you can change your company’s registered address anytime, it cannot be moved between countries. If your company is registered in England and Wales, your registered office address will always have to be in England or Wales. The same applies to companies registered in Scotland and Northern Ireland.

Home address – If you rent your home, you’ll need permission from your landlord. If not, you can register a company at your home address but in that case your home address will be on the public register. If you want to keep it private, you have to use a third-party address. Many accountants and company formation agents offer relatively affordable registered office services.

Image – If you run a small home business such as baking cakes or jewellery design, using your home address should be fine. However, if you plan to work with corporate clients and want to create a professional image for your company, a registered office address in a business district would be a better choice.

Trading address (also called “business address”) is where you carry out the most of your business activities. It’s where your clients, bank, suppliers, etc. send their letters.

Directors’ service address

This is the directors´ correspondence address. If you don’t provide a service address when you appoint a director, their usual residential address will be on the public register. Directors’ service address can be your registered office or trading address, or any other address they don’t mind to make publicly available. Company shareholders are not required to provide their usual residential address. Whatever address they choose to provide will be on the public register.

STEP 3: Decide who will be shareholders and directors

Your company must have at least one shareholder (subscriber) and one director. It can be the same person, for example, you.

There´s no maximum number of directors and shareholders a company can have.

Shareholders

Shareholders are the company owners. The first shareholders of the company (founders) are called subscribers. There are no restrictions on who can be a shareholder or how many shareholders a company can have. Unless they are also employed as directors, shareholders do not work for the company.

They appoint and dismiss directors, vote on important company matters and receive dividends based on the percentage of ownership. So, if you give 50% of your business to a friend or family member, they will have a legal right to 50% of all future profits, whether they contribute anything to the business or not.

If any of the shareholders holds more than 25% of the company shares, they have to be listed as People with Significant Control.

Directors

They are responsible for running the company. Anyone can be a company director as long as they are over the age of 16 and not disqualified from being a director as a result of legal action or bankruptcy. For tax and National

Insurance purposes, directors are classed as office holders and they normally receive a voluntary payment (honorarium) only. However, it's not unusual for a company director to also have an employment contract with the same company and be both an office holder and employee.

Share capital

Share capital is the total value of shares a company has issued to its shareholders. At the same time, it's the amount of shareholders' liability in the event of winding up. For example, if you are the sole owner and you issue 1 share with value of £1, your share capital is £1. That means in case your business fails and you have to dissolve the company, you, as a shareholder, will have to pay £1 towards the company's liabilities (suppliers, employees, taxes, etc.). The share capital is not the value of your company.

The most commonly issued class of shares is ordinary shares, which have full rights in the company with respect to voting, dividends and distributions. There are other types of shares such as preference shares. These shares can be issued to raise capital for your company but don't have any voting rights and dividends are fixed at a specific rate. When allocating shares in your company, keep it as simple as possible and always issue the minimum number of shares possible to achieve the percentage of ownership that the shareholders require. In the table below, there are a few share allocation scenarios, which can help you allocate shares in your company. If in doubt when completing this section, visit Companies House Web Incorporation Service FAQs.

Ownership scenario	Number of shares issued	Share value	Share capital
1 director who owns 100% of the company	1 share issued to the company director	£1	£1
2 directors who each own 50% of the company	2 shares issued; 1 to each director	£1	£2
3 directors with a 40/40/20 split	10 shares issued; 4 to each director who owns 40% and 2 to the director who owns 20% of the company	£1	£10
2 directors who each own 35% of the company and an investor who owns 30% of the company	100 shares issued; 35 to each director and 30 to the investor	£1	£100

STEP 4: Choose a SIC code for your company

A SIC code is a five-digit Standard Industrial Classification code that specifies your business activity. You'll be asked to provide it during the company registration process. You can have up to four SIC codes per company, which can be changed anytime.

The list of Standard Industrial Classification (SIC) codes is available on the Companies House website.

STEP 5: Memorandum and Articles of Association

All private limited companies are legally required to have a Memorandum and Articles of Association. These governing documents have to be filed with Companies House during the company registration process and are kept on the public register.

Memorandum of Association

This is a legal statement signed by all initial shareholders (subscribers) who agree to form a company. It shows the company name, names of all shareholders and their authentications (online signatures). You can use the Companies House template to create a Memorandum of Association for your company.

Articles of Association

They are a company's constitution. They set out rules for appointment of company directors, issuing of new shares, procedures related to board meetings, etc.

When you register a new company, you have three choices:

- to adopt the model articles in their entirety. There's no need to attach them to your company registration form but you should read them.
- to adopt model articles with amendments (you must attach a copy of the amendments)
- bespoke articles (you must attach a copy of the bespoke articles).

Most new companies adopt the model articles of association provided by Companies House. If you choose to submit amendments to model articles or completely bespoke articles, you have to make sure they comply with the Companies Act 2006 and you won't be able to register your company using the online system. The articles of association can be updated at a later date.

STEP 6: Find out whether you need a licence

There are many business types that require a licence in order to trade.

You can use the Licence finder - GOV.UK tool to find out if your business needs a licence. It will also tell you who to contact to make an application.

STEP 7: Find out whether you need insurance

Employers' liability insurance

It protects you against the cost of compensation claims arising from employee illness or injury, sustained as a result of their work for you. You must purchase employers' liability insurance as soon as you become an employer and your policy must cover you for at least £5 million and come from an authorised insurer. You could be fined £2,500 for each day you're not covered. More information is available at Gov.uk Employers' Liability (Compulsory Insurance) Act 1969 - A brief guide for employers.

Professional indemnity insurance

It covers your legal costs and any compensation payments due, if your clients take a legal action against you for a mistake you made while providing professional services to them. It's not a legal requirement but many industry bodies and regulators require from their members to have a certain level of cover.

It's highly recommended to IT consultants, engineers, accountants, solicitors, designers and medical workers, but many other professionals could benefit from having this type of insurance.

Public liability insurance

It´s also not required by law. This type of insurance can cover compensation payments and legal costs if a member of the public (customer, supplier, passer-by, etc.) sues your business because they've been injured or their property has been damaged. It's usually purchased by tradesmen, hairdressers, shop owners, restaurant owners, event organisers and other businesses that interact with the general public.

If your business uses vehicles (car, van, truck, minibus, tipper, HGV, etc.) to transport goods or passengers you are legally obliged to have **commercial motor insurance**.

STEP 8: Find out about applicable laws and regulations

Some laws and regulations apply to all businesses such as Product labelling: the law - Gov.uk or Data Protection Act 2018 - Legislation.gov.uk, but there are many laws and regulations that apply only to specific businesses such as Food safety - Gov.uk.

The best places to start your research are Business and self-employment - Gov.uk and Legislation.gov.uk. You can also seek advice from legal professionals.

STEP 9: Register with Companies House

There are a few ways to register a private limited company:

- By yourself, online application via Companies House (available only to companies limited by shares and accepting model articles). The fee is £12 and it can take up to 24 hours.
- By yourself, postal application using form IN01. The standard postal application fee is £40 and it takes 8-10 days, while the "same day service" fee is £100.
- Hire a company formation agent authorised by Companies House. The fee is usually £30 - £100 and it often includes registered address, director's service address and help with opening a bank account. It can take up to 24 hours.
- Hire an accountant. Not all accountants offer this service but many do. It's usually more expensive than the other options but can be free if you sign up as a client. It can take up to 10 days.

You´ll be notified by Companies House whether your application has been accepted, and if yes, you'll be able to download the incorporation documents form their website. All directors will receive a letter confirming their appointment and reminding them of their duties.

You'll also receive a letter from HMRC with your Unique Taxpayer Reference (UTR) number and the instructions on how to register for corporation tax.

STEP 10: Open a bank account for your company

If your shareholders and directors are all UK residents, you shouldn't have any problems to open a bank account for your new company. You'll have a choice between traditional high street banks such as and NatWest, mobile banks such as Starling Bank and Monzo, and banking apps such as Tide and Revolut.

Most high street banks offer free business bank accounts for the first 18 months and charge about £6/month after that initial period. They also charge transaction fees. The emerging mobile banks and banking apps are a great alternative to the high street banks but they are not for everyone for the services they offer are still limited. Most of them offer bank accounts only to companies with a single owner/director.

If you're a non-UK resident or UK citizen living abroad, you will struggle to open a bank account for your UK company. Although, it's perfectly legal, many UK banks do not offer business bank accounts to non-residents due to money laundering fears.

However, if at least 50% of your shareholders and directors are UK residents, you can open a business bank account at Metro Bank. Barclays bank offers an international business bank account to non-residents who can deposit £25,000. Another option is Tide banking app but you must have a UK mobile number.

STEP 11: Register for the Construction Industry Scheme (CIS)

This applies to you only if you plan to work in the construction industry as a contractor or subcontractor. You'll need your UTR number to register for CIS and there are different forms for self-employed individuals, limited companies and partnerships.

The information about who needs to register and how to register is available at Gov.uk:

Construction Industry Scheme (CIS)
Construction Industry Scheme: a guide for contractors and subcontractors (CIS 340)

STEP 12: Register for corporation tax

When you register a company at Companies House, that information will be passed on to HMRC, who will send you a letter with your Unique Taxpayer Reference (UTR) number and invite you to register your company for corporation tax.

The easiest way to register is online. You just need to follow the instructions provided in the letter. You must register within 3 months of starting to trade (buying, selling, advertising, renting a property, etc.). Some formation agents offer this service as part of their company formation packages. You can, but you don't have to register for VAT and PAYE at the same time, using the same form. The deadline for paying corporation tax, is normally 9 months after your first accounting year ends.

STEP 13: Register for PAYE

You must register for PAYE even if you employ only yourself, as a company director. You must register before the first payday and it usually takes up to 5 days to get your employer PAYE reference number. You cannot register more than 2 months before you start paying the employees. If your limited company has 1 to 9 directors, you can register online.

More information about the legal obligations of employers is available at Gov.uk.

After the registration, you have to run monthly payroll, pay Income Tax and National Insurance contributions to HMRC, and do regular reporting. Most companies hire an accountant or payroll provider to help them with meeting their legal obligations as employers.

If you prefer to do it yourself, there is detailed information on how to set up payroll for your company on Gov.uk (including the accepted free and paid-for payroll software).

STEP 14: Register for VAT

You must register for VAT if your annual turnover is over £85,000. If your annual turnover is below £85,000 you can register voluntarily if it would benefit your business (e.g., if you work with other VAT-registered businesses and want to reclaim the VAT). When you first start a business, it might be difficult to estimate your annual turnover. However, you can register for VAT at any time during a tax year. If at any point you think that you may reach the £85,000 mark in the following 30 days, you should register immediately.

After registering for VAT, you have to: charge the right amount of VAT by applying the correct VAT rate (standard, reduced or zero), pay any VAT due to HMRC, submit VAT returns, have a

VAT account and keep VAT records. Most businesses can register online but some are required to fill in a form and post it to HMRC. More information is available at VAT registration - GOV.UK. You can also appoint an accountant to deal with HMRC on your behalf.

THE LEGAL OBLIGATIONS OF PRIVATE LIMITED COMPANIES

1: Creating and keeping company registers

All companies must keep copies of:

- Certificate of incorporation
- Memorandum of association
- Articles of Association and
- Share certificates (if applicable).

In addition, the companies must keep the following registers (where applicable):

- Register of members (shareholders)
- Register of company directors
- Register of secretaries
- Register of people with significant control (PSC)
- Records of resolutions and minutes of board meetings
- Register of indemnities (agreements to compensate clients for potential loss or damage caused by your company)
- Register of debentures (long-term loans with a fixed interest rate)
- Contracts relating to purchase of shares in the company
- Register of loans and mortgages secured against the company's assets.

You can keep these records at your registered office address or at an alternative location (SAIL address) but you must tell HMRC where they are kept. The statutory registers must be kept for the life of your company. Minutes of meetings and copies of resolutions must be kept for at least 10 years. More information is available at Companies Act 2006.

2: Keeping accurate accounting records

The accounting records can be kept in hard copy or electronic format. You can be fined £3,000 by HMRC or disqualified as a company director if you do not keep accounting records.

All companies must keep accounting records for the following:

- Goods and services bought and sold by the company
- All forms of income and expenditure
- Company assets, liabilities and credits
- Inventory of all stock and assets owned at the end of each financial year
- The stock takings used to work out the inventory figures
- Details of suppliers and customers, with the exception of retail sales
- VAT records (if applicable)
- PAYE records (if applicable)

You must keep your company's accounting records for 6 years from the end of the financial year they relate to, and in some cases even longer (when they include a transaction that covers more than one accounting year or if you buy a machine that it expected to last more than 6 years). More information is available at Gov.uk – Running a limited company.

In case you have to manage a large number of transactions, you should consider using accounting software (see our free Accounting software guide for startups and small businesses) or hiring an accountant, or both.

3: Submitting annual reports to Companies House and HMRC

There are three reports all private limited companies must file with Companies House (CH) and HMRC each year:

- Annual accounts (CH)
- Confirmation statement (CH)
- Company tax return (HMRC)

Annual (statutory) accounts

They normally include: balance sheet, profit and loss account, notes about the accounts and director's report. What exactly you'll have to include in the Annual accounts depends on the size of your company (micro-entity, small, medium or large). The filing deadline is 9 months after the end of a financial year. Copies of the accounts must be sent to all shareholders, people who attend your company's general meetings, Companies House and HMRC (as part of your Company tax return). You can hire an accountant to help you prepare the Annual accounts.

Confirmation statement

Previously known as annual return, it´s normally due one year after the incorporation or your last confirmation statement. All you need to do is check whether the information Companies House holds about your company is still correct and submit a confirmation statement. You can submit it online (£13) or by post (£40). However, most changes (registered office address, company directors, people with significant control, etc.) can't be reported using the confirmation statement. Instead, they have to be reported separately as soon as they occur.

Company tax return

It has to be submitted to HMRC after the end of each financial year. It includes: profit or loss for corporation tax (this is different from the profit and loss statement included in your annual accounts) and corporation tax bill, which has to be paid no later than 9 months after the end of a financial year. As with the Annual accounts, you can hire an accountant to help you prepare the Company tax return. More information is available at Accounts and tax returns for private limited companies: Filing accounts and tax returns - GOV.UK.

If you're not sure when your company's Annual accounts and Confirmation statement are due, you can search for your company on the Companies House website to find out. You can also sign up for Companies House email alerts. Depending on the date when you started trading, you may be required to file two Annual accounts and Tax returns for your first year.

COMPANY TAXATION

As a business owner you have to pay two types of tax: corporation tax and dividend tax. The corporation tax is paid on your annual profits.

The net profits can be either reinvested in the business or withdrawn in the form of dividends, in which case you have to pay dividend tax.

Corporation tax rate

UK corporation tax rate is 19% for the year starting 1 April 2021 (for all profits except ring fence profits). From 1 April 2023 there will be two rates: main rate (25%) and small profit rate (19%).

Dividend tax rate

Dividend tax is paid only on dividends that go above the dividend allowance, which is currently set at £2,000 per year. The amount of dividend tax you pay depends on your income tax band.

UK income tax bands:

Income Tax Rate	2021/2022
Personal Allowance: 0%	£12,570
Basic rate: 20%	£12,571 - £37,700
Higher rate: 40%	£37,701 - £150,000
Additional rate: 45%	Over £150,000

Tax Band	Dividend Tax Rate
Basic rate	7.5%
Higher rate	32.5%
Additional rate	38.1%

Example:
You receive £3000 in dividends in the 2021/2022 tax year. The dividend allowance is £2000, meaning that you pay dividend tax on £1000 only. Your other taxable income is £30,000 (e.g., from your employment). So, your total taxable income is £33,000 and falls under the “basic rate” income tax band (less than £37,700). The basic dividend tax rate is 7.5%. The dividend tax is £75 (7.5% of £1,000).

THE ROLE AND RESPONSIBILITIES OF SHAREHOLDERS

The shareholders own the company but they're not directly involved in the management of the company, unless they are also directors. Their general duties are to appoint/remove directors, attend general meetings and pass resolutions.

If they own ordinary shares, they have a right to vote and right to dividend. The rights, roles and duties of shareholders are set out in the Companies Act 2006 and your company's Articles of Association.

Appoint/remove directors

The shareholders appoint the Board of Directors who run the company on their behalf. If they're not satisfied with the performance of the appointed directors, the shareholders have a right to remove them.

Attend general meetings

Some decisions can be made only by shareholders (removing directors, changing company name, etc.) Company directors may call a general meeting at any time and for any reason, whenever they need the shareholders' approval to act. Private companies are no longer required to hold the annual general meeting, unless that's required by their Articles of Association.

Pass ordinary and special resolutions

The main duty of shareholders is to pass resolutions at general meetings by voting in their shareholder capacity. This allows them to exercise their ultimate control over the company and how it's managed. There are two types of resolutions: ordinary and special. An ordinary resolution is passed if more than 50% of the votes are in favour, while a special resolution requires a 75% majority to vote in favour. A special resolution is sometimes required by the Companies Act (e.g., to change the Articles of Association). If there's no specific mention of what type of resolution is required, the presumption is that there will be a vote on an ordinary resolution.

THE ROLE AND RESPONSIBILITIES OF DIRECTORS

Directors are legally responsible for running the company, and its records, accounts and performance. Their rights, roles and duties are set out in the Companies Act 2006 and your company's Articles of Association.

The main responsibilities of directors

- Keeping company registers and records, reporting changes in the company's officers and their personal data, registered office, people with significant control, allotment of shares, etc.
- Filing Confirmation statement, Annual accounts and Company tax return
- Paying corporation tax

General duties of directors

As per Companies Act 2006, the general duties of company directors´ are to:

- follow the company's Articles of Association
- act in the company's best interests to promote its success
- use their own independent judgement and not let anyone control them
- exercise reasonable care, skill and diligence
- report any possible conflict of interest
- not accept gifts that could lead to conflict of interest
- not misuse the company's property
- apply confidentiality about the company's affairs.

Directors may be fined, prosecuted or disqualified if they fail to meet any of their legal obligations.

WHY YOU MAY CONSIDER SETTING UP AS A SOLE TRADER

Less paperwork

One of the main advantages of operating as a sole trader is the simplicity of this business structure. You only need to submit a Self Assessment tax return once a year and may not even need an accountant to help you with that.

Access to profits

As a sole trader, you can withdraw cash from your business's bank account as and when you need it, because there's no separation between your personal finances and the business's finances. As a limited company owner, you cannot withdraw cash from your company's bank account for your personal expenses. You can either employ yourself and receive monthly salary or pay yourself in dividends.

Privacy

Certain information about limited companies, and their owners and directors, has to be made public. If you set up as a sole trader, you can keep the information about your business private because there's no public register of sole traders. That provides greater anonymity, for example, if you're running a business in your free time and don't want your employer to know about it

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