

# Companies999 Guide: Moving from Sole Trader to Limited Company



This guide will talk you through the steps required to make the switch from Sole Trader to Limited Company and guide you through the key changes you will face.

### First Steps.

If you haven't already, set up a business bank account in your company name. Most banks will require this, especially if you're currently using your personal account for business funds as a sole trader.

As your business accounts will become more complex once you start trading as a limited company, look at adopting accounting software or hiring an accountant to get your accounts in order before you start.

Companies999 provide these essential services for free once you select one of our cost-effective formation [packages](#) to start-up your business successfully.

You'll need to let HMRC know that you've stopped working as a sole trader, though you should complete your Self-Assessment tax return for the remainder of the year as normal. After this, you will need to submit tax returns as a director and shareholder.

**Before you get in touch with HMRC, you'll need to have settled on:**

- ) *Your company name (make sure it's suitable and available)*
- ) *Your registered company address*
- ) *Who your company director(s) will be*
- ) *Details of your company's shares, with at least one shareholder*

## Registering with HMRC

Once everything's in order, you can register with Companies House (the government body responsible for incorporating and dissolving limited companies) or a company formation agent like us.

There are a couple of ways to do this:

### Companies House

If your company is limited by shares and uses "model article" then you can register online. This will cost £12 and normally takes 24 hours to come into effect.

Regular postal applications take 8 – 10 days and cost £40. 'Same day' postal registration costs £100 and your application must get to Companies House by 3pm. Be sure to include "same day service" in the top left corner of your envelope too.

In both cases, send a cheque made payable to "Companies House". You will also need to send a completed form IN01 to register and send your application to the address on the form.

### Companies999

Companies999 provide quick and easy company registrations from only £8.99+ VAT. In four simple formation steps your company will be ready to trade, we cover all your business needs and provide all relevant paperwork in a much cheaper process.

If you're based overseas, then you can incorporate your UK limited company by selecting NON-UK resident package.

Once you've registered, you will get a certificate of incorporation that confirms your limited company exists. It'll show the company number and date of formation.

## Entity Notification

Once you start trading as a limited company, you will be operating as a new entity (and may have a different name). Therefore, you will have to tell the following entities about your incorporation:

### Customers

You may need their consent to transfer contracts to your new business entity. If you don't then it may become void. You will also need to let customers know who they now need to pay.

### Debtors

If you change your business's structure, then you may need to serve notice on debtors and tell customers about this as soon as possible.

### Suppliers

Suppliers will also need to know about your new legal status, so they can invoice the correct business entity. You may have to renew contracts for them too.

### Banks & Finance Providers

Your bank might want you to open a new business bank account, especially if you currently use your personal account for your business. Your bank may also want you to provide a personal guarantee against overdrafts and business loans.

### Lenders

Be aware that you might not be able to transfer any leases or hires to your new business without the consent of a third party.

### Your Landlord

You may have to review any rental agreements to reflect your new legal status.

## Registering for Corporation Tax

You'll have to register for Corporation Tax within 3 months of you starting to trade through your limited company. If you don't, you could face a fine.

### What counts as trading?

Once your new limited company has done any of the below, you will have 3 months to register for Corporation Tax:

- ) Buying & selling goods
- ) Providing services
- ) Carrying out a trade of professional activity
- ) Advertising Renting
- ) A property
- ) Employing someone
- ) Earning interest
- ) Managing investments
- ) Receiving any other form of income

You can learn more about whether your business is “active” or not [here](#).

### How much Corporation Tax do you pay?

For the financial year 2017/18, the UK Corporation Tax rate is 19%. This is the lowest Corporate Tax rate in the G20. If you have an accountant, then they'll file your Corporation Tax returns. Ultimately though, it is you as director of the limited company that is responsible for keeping your books and tax records in order.

### Paying VAT as a limited company

If your sole trader business is already registered for VAT, you will have to cancel your VAT registration within 30 days of the change and then re-register through the company.

## Director Requirement

To form a limited company, you'll need at least one company director. As mentioned earlier, this director will need their name, address, nationality and date of birth on the public application. Some choose to use a token "service" address to protect their privacy.

### Responsibilities as a Director

As director, you will have to submit your Confirmation Statement to Companies House every year – normally on the anniversary of your incorporation date. You will get a penalty for failing to meet your deadline.

You will need to provide Companies House and HMRC with copies of your Annual Accounts, ensure they're accurate and on time. You will also need to let Companies House know of any changes to your company. This can be easily done by logging on to your customer portal on companies999.

Beyond this, your general responsibilities will include keeping the company successful and honest (not accepting bribes, avoiding conflicts of personal and professional interest), meeting regulations for employment, Health & Safety, insuring the company and following the Articles of Association.

### Processing your Income

You can either pay yourself as a shareholder and receive dividends from your company's profits or pay yourself a salary.

### Paying yourself a Director's Salary

To be able to pay yourself a director's salary, you must first [register your company as an employer](#). If you already employ people, you should speak to HMRC about the change of business structure.

We can register your company for PAYE scheme. Please get in touch and we shall do the needful.

### Paying yourself a Dividend

Before you pay yourself, make sure you have enough profit to cover the withdrawal and that your accounts are up to date with bank accounts reconciled and all relevant expenses covered. If your dividend doesn't line up with your profit, the withdrawal could be classed as illegal.

## Share Structures

You will need to decide what your share structure will be. Will you keep all the shares yourself or split them with others?

If you decide to have multiple shareholders (even if it's just your significant other) then you will need their name, address, the class of share they have, and how many shares they own. In lieu of a signature, you will also need some personal information like their National Insurance Number, mother's maiden name or their birth town.

When you pay out dividends, these need to match the shareholdings. Your shareholders can hold more than one type of share and benefit from the different rights.

### Classes of share:

- ) Ordinary shares. These are the most common type of share to start with. They don't have any special rights or restrictions but normally carry equal rights for voting, capital and dividends. You can have different classes of ordinary share – some for £1 and some for £0.01, or some with certain rights attached that others lack.
- ) Deferred ordinary shares. Like ordinary shares, but dividends are only paid after all other share classes have received their minimum dividends first.
- ) Non-voting ordinary share. Self-explanatory – shareholders may receive normal dividends and have no voting rights at all, or only have voting rights if certain conditions are met.
- ) Redeemable shares. These are shares that can be bought back by the company at a later date. Your company can only redeem share out of its profits or the proceeds of any new shares. You can't have 100% of your shares as redeemable, so some non-redeemable need to be in circulation at the same time.
- ) Preference shares. Shareholders receive a fixed amount of dividend each year ahead of ordinary shareholders. These are normally non-voting shares.
- ) Cumulative preference shares. Most preference shares are cumulative by default. If the dividend is missed or not fully paid, then the deficit is paid first as soon as the company has enough reserves.
- ) Redeemable preference shares. As with redeemable ordinary shares, these can be bought back by the company.

If you have company shareholders, then you will need a record of them. Depending on the circumstances, these records might include:

## **Putting shareholders on the PSC Register**

If your shareholders own more than 25% of the company shares, or have more than 25% of the voting rights then they'll be classed as "People of Significant Control". This means you will have to add them to your PSC register. They will also be included on the company's Confirmation Statement.

## **Including shareholders in your Articles of Association**

All companies have Articles of Association – which govern the running of the business. This includes rules on director's powers, limits on decision making by shareholders, voting rights and rules on how dividends are split.

Most companies use a generic "Model Article". If you decide to create your own, then you won't be able to register online. You will have to do it via post.

## **Creating a Memorandum of Association**

The Memorandum of Association includes all shareholders, and acts as an agreement to form the limited company. It will use the following wording:

"Each subscriber to this memorandum of association wishes to form a company under the Companies Act 2006 and agrees to become a member of the company and to take at least one share."

All shareholders will sign. If you're applying online, just tick the relevant box to confirm this has been authenticated.



## **Statutory Records**

As the director of a limited company, you will have a lot more paperwork to do. This will include statutory records that you legally must keep.

### **Register of members**

This includes the names and addresses of all shareholders, alongside the dates the started (and ceased) being a company shareholder. There should also be a statement of all shares held by each, the amount paid on each share plus their number and class.

### **Register of directors**

For every director (even if it's just you), you must include their name, date of birth, address, service address (if different), nationality, business occupation and the country they're based in.

### **PSC Register**

List of those with significant control over the business, as previously mentioned. Their ownership data is sent to Companies House in the Confirmation Statement.

### **Register of company secretaries**

For every director (even if it's just you), you must include their name, date of birth, address, service address (if different), nationality, business occupation and the country they're based in.

### **Register of charges**

This is for any charge made against the property your company owns. HMRC may check your records to ensure you're paying enough tax, so it's important that you stay on top of the paperwork. In addition to the above, they also request you keep records on:

- The results of shareholder votes and actions taken
- Debentures and indemnities
- Transactions made when someone buys shares
- Evidence of loans or mortgages made against company assets

## Accounting Records

You can be fined £3,000 or disqualified as a company director for not keeping proper accounting records – so it's essential you adopt an accounting system that keeps you on top of everything.

### Your accounting records need to include:

- Evidence of all money spent and received by your company
- Details of the company's assets and any stock it owns at the financial year end
- The stocktaking you used to find your stock figure
- Comprehensive coverage of debts the company owes or is owed
- Proof of all goods bought and sold
- Who the goods were bought from and sold to unless you run a retail business.

Other financial records you need to keep track of include those used in your annual account and Company Tax return. These include:

- Money spent by the company (receipts, delivery notes etc.)
- Money received by the company (invoices, contracts, till rolls etc.)
- Other documents like bank statements

### Preparing your annual accounts

You'll use your financial records in your company's annual or "statutory" accounts. These need to be completed at the end of your company's financial year.

The accounts go to all shareholders, Companies House and HMRC, plus anyone who can go to your company's general meetings.

### What do annual accounts include?

Depending on the size of your business, your annual accounts will need to include the following, calculated for the final day of your financial year.

- Balance sheet (with the name of the director printed and signed on it)
- Profit and loss account
- Note about accounts
- Director's report

You may have to provide less paperwork if you're a small company or "micro-entity". Visit the government website for more info.

Companies999 provide free Accountancy Services including a one-hour telephone consultation with our partners Base52 Chartered Management Accountants. Specialists in offering the right business advice this essential service will cover all your needs.

You can also make the most of our partners Kashflow, an accounting software designed for small businesses across the UK. Stay in control of your accounts, get paid faster and make sure they are tax compliant with this specialized software.

## Accounting Software

Many sole traders have already turned to cloud accounting software like KashFlow but when you become a limited company it becomes almost essential to upgrade outdated bookkeeping methods like spreadsheets or paper-based books.

Here's how software can help

### **Preparing for your year end**

Throughout the year, you can use your accounting software's automated and simplified system to chase invoices, claim your expenses and ensure your paperwork is organised. As you're working from one place, your documents are all to hand when the time comes to make your final preparations for your year end!

### **Improved data accuracy**

There's a reduced risk of errors when you're using software to handle your data entry, because you're simply putting the numbers in the right boxes – no guesswork required. And as KashFlow's software is HMRC-accredited, you know your documents will be correctly formatted and your year-end submission will be compliant.

### **Saving time**

With software, you can run multiple reports from your data. Enter your numbers once then create profit & loss accounts and balance sheets from the same data set – and save time by running them through the specified Year End Process within KashFlow.

This useful guide was brought to you from Companies999, a company formation agent that simply ensures your business starts up successfully. For more information, visit our website [here](#) and we will be happy to help you incorporate today!