

ROTHERHAM TAYLOR
LIMITED
Chartered Accountants & Registered Auditors

A GUIDE TO RUNNING A LIMITED COMPANY

YOUR FORW7RD
THINKING ADVISERS

TAKING THE RIGHT FIRST STEPS

Whether you are forming a limited company for the first time or moving on from being a sole trader or partnership, you must make sure you have the right foundations in place from the outset.

COMPANIES HOUSE REGISTRATION

When wanting to run a limited company, you must register your business with Companies House. This will make you a legal entity and allow you to trade as a limited company.

The easiest way to register is online through the guidance on GOV.UK. The process will usually take around 24 hours.

When your company is registered, you will receive a Certificate of Incorporation confirming your company number and the date it was formed. You will normally be set up for Corporation Tax at the same time.

During registration you will need to provide details including:

- The company name.
- A registered office address.
- Details of company directors and secretaries, if applicable.
- Information about shareholders and shareholdings.

Once registered, all limited companies must file annual accounts and a confirmation statement with Companies House.

You must also keep your statutory registers up to date and report any changes to your company details as they happen.

SHAREHOLDINGS

Before trading commences, you must determine who owns the company and in what proportions. Shareholders do not need to be directors or officers of the company.

Most small and medium-sized businesses are set up with ordinary shares, which typically carry equal rights to dividends and voting.

However, it is possible to create different classes of shares with varying rights, which may be useful for tax planning or investment purposes.

Anyone holding shares in the company will be entitled to dividends (if declared) and will have a stake in the business should it be sold or wound up.

The rights attached to each class of share will determine how proceeds are distributed.

BUSINESS BANK ACCOUNTS

A limited company is a separate legal entity and must have its own bank account. To open an account, banks will usually require a copy of the Certificate of Incorporation.

Many companies also choose to open a separate savings or reserve account to set aside funds for Corporation Tax, VAT or PAYE liabilities.

This can help you with cash flow management and reduce the risk of unexpected tax pressures.

DISCLOSURE REQUIREMENTS

Limited companies are legally required to display specific information on all business communications, whether paper or electronic.

This includes:

- The company's full registered name.
- The registered office address.
- The company's registration number.
- The jurisdiction in which the country is registered.

This information must appear on letters, invoices, order forms, emails and websites.



INSURANCE REQUIREMENTS

Limited companies must be aware of their insurance requirements and the exact cover required will depend on the nature of your business. However, the main types required are:

- **Employers Liability Insurance:** This covers claims made by employees for injury or illness suffered as a result of their work. This insurance is compulsory if your employee employs any staff. If you are the sole director and the only employee, and you control more than 50 per cent of the shares, this insurance may not be legally required. However, it is still worth considering depending on your circumstances.
- **Public Liability Insurance:** This protects your company from claims made by third parties who suffer injury or damage as a result of your business activities. This is particularly important if you deal with clients, suppliers or the public.
- **Professional Indemnity Insurance:** This is essential for businesses that provide advice or professional services. It covers claims arising from negligence, errors or omissions in the services you provide.

EMPLOYMENT AND PAYROLL

Once registered for PAYE, your company must operate payroll correctly and in real time.

REAL TIME INFORMATION (RTI)

Under RTI rules, employers must notify HMRC each time an employee is paid. This is done through submissions such as:

- Full Payment Submission (FPS)
- Employment Payment Summary (EPS), if applicable

Failure to submit RTI reports on time can result in penalties.

PAYROLL RECORDS AND FORMS

Employers are also responsible for preparing and issuing statutory forms, including:

- P60s at the end of each tax year.
- P45s when an employee leaves.
- P11Ds for Benefits in Kind.
- P11D(b) confirming the employer's Class 1A NIC liability.

Benefits in Kind (BiK) will be compulsory for payroll from April 2027. You must ensure you report and pay your tax in real time through your FPS and update your payroll systems to stay compliant.

It is your duty to ensure that accurate payroll records are kept for each employee, and you must keep them for three years from the end of the tax year they relate to.

PAYE AND NATIONAL INSURANCE

If your company pays a salary to you or any other employees, you must register for Pay As You Earn (PAYE) with HMRC. Once registered, HMRC will issue reference numbers for Income Tax and National Insurance.

Under PAYE, your company is responsible for calculating and deducting Income Tax and National Insurance Contributions (NICs) from employees' wages. This is usually on a weekly or monthly basis from staff wages or salaries, which is then paid to HMRC. From 1 April 2026, the rates are as follows:

- National Living Wage (for 21 and over):
£12.71 per hour (up 4.1 per cent).
- National Minimum Wage for 18-20 year olds:
£10.85 (up 8.5 per cent).
- National Minimum Wage for 16-17 year olds and apprentices: £8.00 per hour (up 6 per cent).

National Insurance Contributions (NIC):

- NICs apply to earnings over certain thresholds.
- Employees pay NICs above the tax-free allowance, with lower rates on higher earnings. Employers also pay NICs on salaries above the threshold at a flat rate.
- Directors' NICs are calculated annually rather than per pay period, so deductions are timed differently despite using the same rates.

The latest National Insurance rates can be found [here](#).

PENSION CONTRIBUTIONS

Limited companies have legal duties in relation to workplace pensions under the automatic enrolment rules.

If your company employs staff, you must assess whether they meet the criteria for automatic enrolment based on their age and earnings.

An eligible employee is someone aged 22 to State Pension Age, who earns more than £10,000 a year and usually works in the UK. The earnings thresholds for auto-enrolment in the 2026/27 tax year are:

- £192 a week.
- £833 a month.
- £10,000 a year.

If your employee meets these conditions, you must automatically enrol them into a qualifying workplace pension scheme and make employer contributions alongside their employees. The minimum contributions are:

- Total: eight per cent of qualifying earnings
- Employer: three per cent
- Employee: five per cent

Employees must be enrolled even if they do not wish to and choose to opt out later and they must be notified of this.

Employers must submit a Declaration of Compliance and re-enrol eligible staff every three years.

In some cases, directors may be exempt, especially where they are the only director and have no employees. Even so, voluntary pension contributions can remain a highly tax-efficient option.

BENEFITS IN KIND (BiK)

If the company provides benefits to directors or employees in addition to their salary, these may be classed as BiK. Common examples include:

- Private medical insurance.
- Company cars or vans.
- Fuel for personal use.
- Gym or health club memberships.

BiK must usually be reported on P11D forms and the company must pay Class 1A National Insurance on their value.

Employees will also pay Income Tax on the benefits. Some benefits can be included in payroll instead, provided this is registered with HMRC in advance.

From April 2027, all BiK will need to be payrolled and employers who delay preparations will risk reporting backlogs and inaccurate tax calculations when the deadlines arrive.

IR35

IR35 rules were introduced so that individuals who work like employees but provide their services through a Personal Service Company (PSC) or partnership pay the same tax as employees.

If you are a medium or large company who provides its services to a client, you must assess whether the engagement is inside or outside IR35. This will depend on factors such as control substitution and mutuality of obligation.

Where IR35 applies, company profits are taxed as if they were a salary, with PAYE and NICs applied accordingly. Determining your status correctly is crucial and you must seek professional advice if there is any uncertainty.

From April 2026, the definition of a small company under IR35 rules have changed and businesses who meet the small company criteria will be exempt from these obligations.

A company will be classed as small if they meet two of the following three thresholds:

- Annual turnover of up to £15 million (up from £10.2m).
- Balance sheet total of up to £7.5 million (up from £5.1m).
- Employee headcount at 50 employees (remains the same).

OUTSOURCING YOUR PAYROLL

Payroll is heavily regulated, with frequent PAYE changes and rising minimum wages. While outsourcing is optional, limited companies must run a fully compliant PAYE system when paying directors or employees.

Outsourcing payroll helps ensure accurate wages, timely payslips, and correct PAYE and NIC reporting to HMRC, reducing errors and freeing up time to run your business.

Payroll services include:

- PAYE registration
- Salary calculations and managing payslips
- Handling new and leaving employees
- Issuing P45s and P60s
- Compliance with workplace pensions, such as auto-enrolment assessments and contribution calculations.
- Managing statutory payments, such as Statutory Sick Pay and maternity pay.

PAYING YOURSELF

One of the main advantages of running a limited company is the flexibility in how you pay yourself.

Most directors will choose a combination of salary and dividends. Salaries must be processed through PAYE, while dividends are paid from post-tax profits.

Dividends can only be paid out of available profits, and the company must have sufficient retained profits after expenses and tax liabilities have been met. Paying dividends without sufficient profits can lead to serious issues with HMRC and result in penalties or the dividends being reclassified as salary.

Before paying a dividend, you must ensure sufficient profits exist, formally declare the board minutes and issue dividend vouchers to shareholders. These vouchers must include the date, company name, shareholder name, and the amount. Dividends must be paid in proportion to shareholdings unless different classes of shares are in place.

There is no fixed amount for dividends and most companies choose to pay them quarterly or every six months.

They are not taxed at source and you must declare any dividends through your Self-Assessment tax return. Any dividend tax due is usually payable to HMRC by 31 January following the end of the tax year in which it was paid.

Keeping accurate records and taking advice before declaring dividends is essential to remain compliant. Careful planning can also result in tax savings, but payments must always be supported by the appropriate paperwork and company profits.

DIVIDENDS

As company dividends are not treated as earnings, there is no NIC payable which means it can sometimes be a tax-efficient strategy to pay you and your fellow directors a low salary and take the remainder of your drawings as dividends.

Dividends are taxed as income in the hands of shareholders. Each individual has a tax-free dividend allowance of £500 for the 2026/27 tax year. Amounts above this will be taxed at dividend-specific rates depending on their overall income.

Failure to follow the correct process can result in dividends being reclassified as salary or loans, with significant tax consequences.

PERSONAL TAXATION

For directors of limited companies, personal taxation is inseparable from your corporate affairs.

While the company is a separate legal entity, HMRC still expects directors to report and pay tax on their personal income accurately and on time.

This will typically include:

- Salary received through PAYE.
- Dividends paid by the company.
- Bank interest.
- Rental income.
- Any other sources of taxable income

Most directors are required to complete an annual Self-Assessment tax return, even if HMRC does not automatically issue a notice to file.

The return must be filed online by 31 January following the end of the tax year and any outstanding tax paid by that date.

If your liabilities are significant, payments on account may apply and advance payments may be required towards the following year's tax bill.

Personal tax returns are essential for reducing your overall tax liability by allowing individuals to claim various reliefs and allowances that are not automatically applied through PAYE.

These include higher-rate tax relief on pension contributions, Gift Aid donations and certain allowable expenses.

Personal tax interacts closely with company decisions, particularly around dividends and pensions and accurate reporting and planning is essential.

REAL TIME REPORTING

Real time reporting affects how your limited company interacts with HMRC and manages your finances.

Under RTI rules, employees must submit PAYE data to HMRC every time employees are paid and late or incorrect submissions can lead to penalties or interest charges.

The UK tax system is becoming increasingly digital and VAT registered businesses are already required to comply with Making Tax Digital (MTD).

This means keeping digital records and submitting VAT returns through compatible software.

Using real time, cloud-based systems can allow directors to see up-to-date financial information at any point, rather than relying on quarterly or year-end figures.

This visibility can support your cash flow management, tax planning and allow issues such as rising costs or falling margins to be addressed early.



MAKING TAX DIGITAL AND ACCOUNTING SOFTWARE

Making Tax Digital (MTD) is set to make the UK system digital by requiring digital record keeping and the use of approved software to submit tax information to HMRC.

For limited companies, the most significant requirement is MTD for VAT. All VAT-registered limited companies must now keep digital VAT records and submit VAT returns using compatible software. Returns can no longer be filed manually and should be done through the HMRC VAT portal. Most cloud accounting systems, such as Xero and QuickBooks, are fully compliant with MTD for VAT and submit returns directly to HMRC.

MTD for Income Tax Self-Assessment (ITSA) applies to sole traders and landlords with gross income over £50,000 with further phases taking place in subsequent years, but this new tax regime does not directly affect limited companies. HMRC has confirmed that MTD will not be extended to Corporation Tax and limited companies should continue to file annual CT600 returns rather than quarterly updates.

HMRC's existing online filing service for company accounts and tax returns has closed from April 2026, meaning submissions will need to be made using compatible software.

While full MTD for Corporation Tax is not currently mandatory, limited companies should not be complacent. Digital record keeping improves accuracy and reduces the risk of penalties.

MTD-compatible systems, alongside cloud accounting, help you stay compliant and prepare for future digital tax changes.

CLOUD-BASED ACCOUNTING SOFTWARE

Limited companies can operate more efficiently using cloud-based accounting software that automates routine tasks, reduces manual errors and integrates seamlessly with payroll systems and HMRC. The best accounting software supports:

- Bookkeeping.
- Real-time profit and loss reporting.
- Balance sheets aligned with Companies House requirements.
- VAT submissions under MTD.
- Integration with payroll and pension providers.

The right choice for you often depends on the complexity and size complexity of your business, whether you need payroll integration and how you prefer to manage invoices and expenses. Whatever software you choose should be consulted with your accountant so that it works alongside your year-end processes.

VAT REGISTRATION

A business must register for VAT if either its taxable turnover exceeds £90,000 in the previous 12 months or it expects £90,000 in the next 30 days alone.

Once registered, the company is required to charge VAT on its taxable supplies, submit VAT returns and pay any VAT due to HMRC.

VAT-registered companies must also comply with MTD for VAT. This means keeping digital records and submitting VAT returns using MTD-compatible software. Manual submissions through the HMRC portal are no longer permitted and VAT returns must be prepared quarterly.

When registered, you must charge output VAT on sales and reclaim input VAT on allowable business purchases. The net difference will then be paid to HMRC. Accurate record keeping is crucial here as errors can result in penalties, interest or HMRC enquiries. Businesses must keep any records for at least six years in case any issues arise later.

Businesses below the VAT threshold may choose to register voluntarily. This can be beneficial where a business incurs significant VAT on costs or supplies mainly to VAT-registered customers. However, voluntary registration also increases your administrative obligations, so you must decide carefully.

THE FLAT RATE SCHEME (FRS)

FRS is made to simplify VAT accounting for smaller businesses with a turnover below the scheme's threshold.

Under FRS, the business charges VAT to customers as normal but pays a fixed percentage of gross turnover to HMRC. This is instead of calculating input and output VAT.

However, the percentage will depend on the industry sector. While FRS can reduce administration and sometimes generate a saving, it is not suitable for all businesses, particularly those with high VAT costs or classed as limited cost traders.

You must also decide whether to use invoice accounting or cash accounting. Invoice accounting is based on the date invoices are issued, while cash accounting accounts for VAT when customers pay.

Cash accounting can help manage cash flow efficiently, especially for businesses with slow-paying customers.

CORPORATION TAX

All limited companies trading in the UK are required to pay Corporation Tax on their profits.

Companies must register for Corporation Tax online with HMRC and complete a form CT41 G confirming details of the directors, the nature of the business, any parent company and the chosen accounting period. You will be given a Unique Tax Reference (UTR).

Since April 2023, Corporation Tax rates have been linked to the level of company profits. These are:

- Companies with profits of £250,000 or more pay Corporation Tax at the main rate of 25 per cent.
- Companies with profits of £50,000 or less benefit from the Small Profits Rate of 19 per cent.
- Where profits fall between £50,000 and £250,000, a tapered rate applies.

Corporation Tax returns must be prepared and submitted online each year. The return is due within 12 months of the end of the accounting period, while the tax itself is usually payable within nine months and one day after the year-end.

Larger companies may be required to pay Corporation Tax in quarterly instalments. A full set of company accounts must also be submitted online with a Corporation Tax return (CT600).

When planning for Corporation Tax, there are a number of steps you can take to reduce your tax liability, or to maximise the amount of tax you can reclaim on certain investments like qualifying company assets.

Capital allowances can be claimed on some items of office equipment, fixtures and fittings and plant and equipment.

You may also wish to consider other planning options, such as making additional employer pension contributions or paying staff bonuses.

CAPITAL ALLOWANCES

Capital allowances allow limited companies to deduct the cost of certain capital assets from their taxable profits.

This is done before Corporation Tax is calculated and applies to long-term assets such as equipment, vehicles, computers, office furniture and some fixtures and fittings. If you use the correct allowance, it can significantly improve your cash flow.

The main types of capital allowances available are:

- **Annual Investment Allowance (AIA):** This allows you to deduct 100 per cent on most qualifying assets in the year of purchase and has a permanent limit of £1 million per year. Although cars and assets previously used for personal purchases are excluded.
- **Writing Down Allowances (WDA):** For items not qualifying for AIA, you can claim a percentage of the value. This is either at 18 per cent (main rate) or 6 per cent (special rate), depending on the item you have bought.
- **100 per cent First-Year Allowance (FYA):** These are available in limited circumstances and are usually for assets that support Government incentives.
- **Full Expensing and 50 per cent Special Rate Allowance:** These are available in limited circumstances and are usually for assets that support Government incentives.

Capital allowances are claimed through your Company Tax Return and must be supported by accurate calculations. Although your accountant can prepare your claim, it is your responsibility to ensure the information is correct.

R&D TAX RELIEF

If your company carries out Research and Development (R&D), you may be eligible to claim R&D tax relief. This tax relief helps fund innovative growth and can reduce your Corporation Tax bill and can even provide a cash repayment.

To qualify, your project or work must meet HMRC's definition of R&D and aim to advance science or technology. The activity must be carried out in a structured way and be led by professionals with relevant expertise. The projects do not need to be successful to qualify and they are available across a wide range of sectors, such as software development, manufacturing, engineering, construction and science.

Qualifying costs can include:

- Staff salaries.
- Pension contributions.
- Consumable materials.
- Employer National Insurance.
- Software used in R&D.
- Certain subcontractor cost.

If you think your company may be eligible, you should gather supporting evidence and financial records before submitting a claim through your Company Tax return (CT6000).

However, the complexity of HMRC's rules and increased scrutiny of claims means that seeking professional advice is recommended so that your claim is accurate and compliant.



BOOKKEEPING

While it may seem straightforward, accurate bookkeeping is essential for compliant financial records and making informed decisions.

Limited companies must keep records of all income and expenses which, will be the basis of your statutory accounts and Company Tax return, including:

- Copies of sales invoices issued to customers.
- Purchase invoices relating to supplier and business costs.
- Expense claims submitted by directors or employees.
- Receipts for cash expenses.
- Bank statements for the company's business accounts.
- Statements for any company credit cards.
- Documentation for loans, finance agreements, hire purchase and credit accounts the company has with any third party.

Poor bookkeeping can result in incorrect tax calculations, missed allowable expenses, inaccurate financial reports and HMRC penalties.

Even small errors can have consequences and bookkeeping software can help reduce this risk by automating calculations and creating a clear audit trail.

Making Tax Digital (MTD) has already made digital bookkeeping essential for VAT-registered companies and digital reporting requirements are further expected in the future.

Implementing these systems early can help better prepare you for these changes.

AUDIT

Not all limited companies are legally required to have an audit and whether your company needs one will depend on its size, turnover and assets. However, some smaller companies may choose to have an audit voluntarily for added reassurance.

A statutory audit is a review of your company's financial statements, carried out by a registered auditor. It can help provide confidence that your accounts are accurate and comply with current accounting standards and legislation. This assurance can be valuable to shareholders, lenders, investors and other stakeholders.

For financial years beginning after 6 April 2025, a company will need a statutory audit if they meet two of the following thresholds:

- Annual turnover of more than £15 million.
- Assets of more than £7.5 million.
- An average of more than 50 employees.

If your company exceeds these thresholds for two consecutive years, an audit will become mandatory. Even if your company qualifies for audit exemption, you may still need an audit if your articles of association require one or if shareholders of at least 10 per cent of shares formally request one.

Many exempt companies may choose a voluntary audit, as this can provide reassurance that your finances are accurate and increase credibility for lenders and investors.

If your company is approaching the threshold or you are unsure of your obligations, you must seek professional advice to help make an informed decision.

INVOICE AND CASH FLOW

Invoices are not just about getting paid and there are legal and compliance requirements. Limited companies must issue invoices that meet statutory standards and maintain clear records for tax and audit purposes.

A compliant invoice must include the:

- Full company name.
- Registration number.
- Registered office address.
- Invoice data.
- Clear breakdown of goods or services supplied.

If the company is VAT-registered, the invoice must also show the VAT registration number and VAT charged. Using invoicing software simplifies this process and improves cash flow by faster billing and payment tracking.

Clear and timely invoices can help reduce the risk of disputes and provide visibility over outstanding payments, which can better your financial health.

HOW OUR ACCOUNTANTS CAN HELP

Running a limited company means you are responsible for meeting several obligations across payroll, VAT, Corporation Tax, personal tax, reporting and statutory filings. An accountant's role is to bring all of these areas together and ensure nothing is missed. We can help make sure your company's financial decisions are both compliant and efficient.

We support businesses from the initial setup to their continued growth. We will help set up robust systems for payroll, invoicing and reporting from the outset. By implementing the right cloud-based accounting software and processes, we can keep your records accurate and compliant with MTD requirements.

Compliance is at the centre of our support and we can manage the important filings and deadlines, including VAT returns, payroll submissions under RTI, Corporation Tax returns (CT600), annual accounts and confirmation statements.

Our expert team can provide tax planning advice and guide you on director remuneration, dividends, pension contributions, allowable expenses, capital allowances and other reliefs. We will review your tax position throughout the year and help you plan for upcoming liabilities and avoid unexpected tax bills.

We are also a point of contact with HMRC and can deal with any queries or investigations on your behalf. This removes the administrative burden from you and ensures any issues are handled professionally.

Most importantly, we tailor our advice to support you and your business. Some clients prefer to outsource their entire financial responsibility, while others retain control internally and rely on us for oversight and year-end work.

Whichever approach you choose, we want to give you clarity and peace of mind so you can grow your business with confidence.

Contact us today to find out how we can help you effectively run your limited company.



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