Frequently Asked Questions

What can JT Accounting do for you?

We can take care of all of your accounting needs, such as;

1. Annual accounts for Companies House, if you are a corporate body registered with Companies House – where the company does not need an audit
2. Annual accounts preparation for including your trade figures into your self assessment tax return
3. Preparing self assessment tax returns for individuals and companies (Companies classed as small for Companies House)
4. Book-keeping
5. Payroll (For up to 10 employees)
6. Company Secretarial duties – such as filing the company return and changing any ownership information.
7. Management accounts preparation
8. VAT returns
9. PAYE returns (in line with RTI)
10. Develop systems and processes for companies wanting to implement their own finance team
11. … And if you don't understand what any of the above means, but know you need something, we can help you figure that out too…

Sole Trader or Limited Company?

A Sole Trader is somebody that acts under their own name and cannot use the Ltd status. They are required to submit an annual self assessment tax return to HMRC and may also need to register for VAT and PAYE in certain circumstances. A Limited Company means you will need to register with Companies House and HMRC and provide annual returns to them both. It is sometimes possible to limit your liabilities if operating as a company but if you are working alone this is not always effective in practice, however, you can pay yourself with dividends which can be more tax efficient.

What are the benefits of being a Sole Trader?

The main benefit is less reporting requirements. As a sole trader you will need to keep accounts and register with HMRC to receive a UTR (unique tax reference) and submit annual tax returns specifying your income and relevant tax deductible expenditure, but you will not need to submit anything to Companies House. This is mainly beneficial if your earnings are below the 40% threshold, particularly where your taxable profits on your sole trade are less than £25,000, as you will save costs on reporting.

What are the benefits of setting up a Company?

You will have more ways of managing your tax liability, through paying a combination of salary and dividends. Also, setting up the company name through Companies House means nobody else can set up with that same name. If you start as a sole trader and change to a company you may not be able to set up with the name you would choose. If you would like to give somebody else a part of the business at some point, a company allows this through allocation of shares. However, while there is an element of protection to individuals through setting up a limited company as it is an entirely separate entity, if you are the sole owner/shareholder, then there will still be risks to the individual if the company has trouble.

Naming a company

It is worth considering if you will sell the business in the short to medium term as a name for the company which incorporates your own name may affect the way in which you dispose of the company.

Where do I start with a company set-up?

There are two main ways to do this, either directly through Companies House (either online http://www.companieshouse.gov.uk or paper) or search online for company formation and find a company that can process it all for you. The formation company will charge you a small fee but is quick and you may be able to use them for your registered office address. However, sometimes you are left not knowing the details of your own company, such as, what is contained in the Articles of Association. Setting it up through an Accountant means the Accountant will more easily know how to record the company structure in the accounts.

What is a Registered Office?

This is the address associated with the company and is held in the public domain. If somebody searches for the company on Companies House website they will see this address. It is possible to use a company to provide this for you if you work from home and would prefer not to publish your address.

What is the difference between a Director and a Shareholder?

A Director is somebody that manages the company’s day to day operations, there is usually a Board of Directors in larger companies and they meet

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regularly. Separately there are shareholders, they own the company and usually only meet once per year. Ordinary shareholders usually have a right to dividends paid from the (after tax) profits of a company, Directors do not always have shares and therefore no dividends. However, in small companies usually the Directors are all shareholders. There needs to be at least one Director and one Shareholder in a company.

What should I record in my accounts?

The company accounts are a record of all of the financial transactions made by the business. This means you should record:

- The invoices you issue to clients – with an invoice number, date and amount, both net and gross (ie before and after VAT).
- The expenses you cover from personal funds and need to reclaim from the business – keep receipts!
- The invoices or receipts received from suppliers.
- Salary taken from the company.
- Loans taken from the company.
- Mileage should be logged if it is being claimed through expenses as the mileage allowance changes after 10,000 miles per year.

This is not a comprehensive list, all items paid into or out of the company accounts should be tracked.

Why should I record these things?

The record of transactions helps track the profitability of a company. The transactions are used to create accounts which mainly consist of two statements – the P&L (profit and loss) account and the balance sheet. These are used in calculating the tax bill for companies and sole traders. Accounts can also be used to help track outstanding debtors and creditors and to assess the performance of the company for managers to make decisions about the future.

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What about cashflow?

This is the most important part for any business, managing cash coming in with cash going out to ensure the bills get paid. It is advisable to set aside at least 20% of net income (i.e. excluding VAT) on a regular basis in order to cover National Insurance and Corporation Tax liabilities. Also, before committing to a long term cost, such as a lease or employees, ensure you have a reserve of cash to cover potential redundancy or lease termination costs if income took a turn for the worse.

Who are HMRC?

Her Majesty's Revenue and Customs. They are the body to communicate with about all things tax related. You will need to register with them for the taxes specific to you and your organisation's needs. Go to www.HMRC.gov.uk for more information.

How do I register with HMRC and what is the timeline?

When you apply to Companies House and receive notification that the company is set up, you will be issued with a Company Registration number. This should trigger HMRC to send a letter advising of Corporation Tax obligations, including dates for the tax return and the all important UTR. You should register for the appropriate tax as soon as you are aware that it applies to you. If you do not receive anything from HMRC, it doesn't mean you don't need to register, it is your obligation to be aware of what you need to do. Your accountant will be happy to support you.

Why should I register for VAT?

If your turnover is under £83,000* per year you do not need to register for VAT, however, if you believe it will go above this within the first 2 years it is worth considering registering early as it will affect your prices, particularly if your customer base is likely to be non-VAT registered people or organisations. Also, if you have a lot of purchases relative to the business which incur VAT, then it may boost your profits to register for VAT. You will be able to recover the VAT paid out to suppliers by offsetting the VAT added to your sales which you will need to pay over to HMRC. (This only applies if VAT can be added on to your prices, rather than absorbed into your existing sales price.)

When should I register for PAYE?

As a Director of the company you will want to pay yourself a salary so you must register for PAYE before you make your first salary payment. You will then need to run a payroll, which your accountant can do for you. If you are a sole trader, you will not be able to pay yourself on a PAYE basis but will still have to set up a payroll and register for PAYE if you take on staff.

What are Payments on Account?

Payments on account are required where you complete a self assessment tax return that comes to a value of greater than £1,000 for a year. In the following year you will need to pay income tax during the year based on an estimate. E.g., if for 2010-11 you completed your first tax return and it came to £3,500, you will need to have paid this amount by 31st January 2012. However, unless you apply to reduce your payments on account, HMRC will assume your income levels stay the same, in which case you will need to make a payment for the tax year 2011-12, assuming it also comes to £3,500, paying 50% by 31st January 2012 and 50% by 31st July 2012.

What National Insurance (NI) should I pay?

If you are a sole trader you will need to pay voluntary NI contributions to stay eligible for state benefits, these have been added on to the tax return lately but the rules are changing. You will also need to pay Class 4 contributions which are on the profits of your trade. If you are employed by a company you will need to pay class 1 contributions, which are based on a proportion of your salary and the company will also need to pay contributions for you unless you stay below certain salary thresholds.

National Insurance for Company Directors

As a company Director you are deemed to have control over the company and HMRC's way of ensuring you don't manipulate paying yourself to reduce NI payments is by working Directors' NI out on a cumulative basis, this therefore means that your NI calculation will kick in after you reach a certain earnings level, and will not be calculated on a monthly basis. You may find you have no NI to pay in the early months of the tax year and then it will be a larger amount for the following months. You will pay the same as another person on the same salary but just with different timing.

What is Real Time information for payroll?

This will only affect you if you run a payroll - to pay yourself and staff. This is the change HMRC has made to the reporting of any PAYE and NI payments due. Instead of an annual submission, reporting happens for every pay run made if that is weekly or monthly, even if it is a nil return. The main change is more emphasis on making sure all the information is known about an individual before paying them – such as date of birth and address.

Do I need to be audited?

If you are a sole trader, no, you don't need to be audited.
If you are a corporate body, ie registered with Companies House, then it depends on the requirements of your Company Articles of Association and the shareholder requirements, but if there is no special need to audit, if you meet 2 of the following criteria you do not need to be audited*.

- annual turnover must be not more than £6.5 million;
- the balance sheet total must be not more than £3.26 million;
- the average number of employees must be not more than 50.

What should be included on an Invoice?

An invoice to a customer should include as a minimum:

1. Company name & address for customer and supplier
2. Company VAT registration number if registered
3. An invoice number – format is optional as long as each invoice has a unique number
4. Amount broken down into net amount, VAT amount and gross amount (total)
5. Bank details for payment
6. Terms of payment if not stated elsewhere

Sell or close a company

There are benefits to both from a tax point of view. There are ways of claiming Entrepreneur's Relief to have a lower tax % charge on sold assets or closing down a solvent company. If the company still has assets greater than £25k* then a liquidator may need to be involved which will incur costs, however, this may still be a more beneficial option than taking dividends.

Glossary

Articles of Association	Company rule book established on set up for how the company will operate, there are standard ones but the more Directors and Shareholders there are the better idea it is to refine them.
Corporation Tax	Tax payable on the profits made by a company, subject to rules around allowable expenses.
Dividends	A form of income for shareholders which has a favourable income tax rate and doesn't incur NI.
PAYE (Pay As You Earn)	The tax deducted by a company and paid over to HMRC from employees wages.
Self Assessment	This is the process for calculating a tax liability due and can apply to an individual's income tax or corporation tax. A tax calculation is submitted to HMRC for them to review and accept, rather than HMRC calculating the liability.
UTR (Unique Taxpayers Reference)	A 10 digit reference code allocated to people and companies for HMRC to track the entities tax transactions.
VAT (Value Added Tax)	A tax applied to the value of goods or services being. Subject to many various complicated rules VAT added to sales is paid to HMRC VAT paid on purchases is recovered from HMRC.

**The information contained in this document is for general information only, individual circumstances may vary and rates and thresholds may change.*

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