

THE COMPLETE COMPANY FORMATION GUIDE

Everything you need to know before
starting a business



Business4Beginners
Free Advice For UK Startups

Table of Contents

[Introduction](#)

[Sole Trader or Limited Company?](#)

[Legal Obligations for Companies and Sole Traders](#)

[How to Form a UK Company](#)

[Choosing a Company Formation Agent](#)

[How to Complete the Application Process for a Limited Company](#)

[Why Do I Need a Business Bank Account?](#)

[How to Organise Your Bookkeeping](#)

[Using and Choosing Accounting Software](#)

[Key Dates and Obligations You Need to Meet](#)

Introduction

The UK has been named as the seventh most 'business-friendly' country in the world by the World Bank (2020) and eighth in the Index of Economic Freedom, while London is one of the global business centres.

Proving this image, there has been a 69% increase in the number of businesses in the UK since 2000. In 2019, there were 5.9 million private sector businesses, up by 200,000 compared to 2018.

Doing business in Great Britain is often viewed as a good choice. The mature nation is deemed extremely business-friendly for its accountable democracy and free-market economy, which imposes few restrictions and no exchange controls.

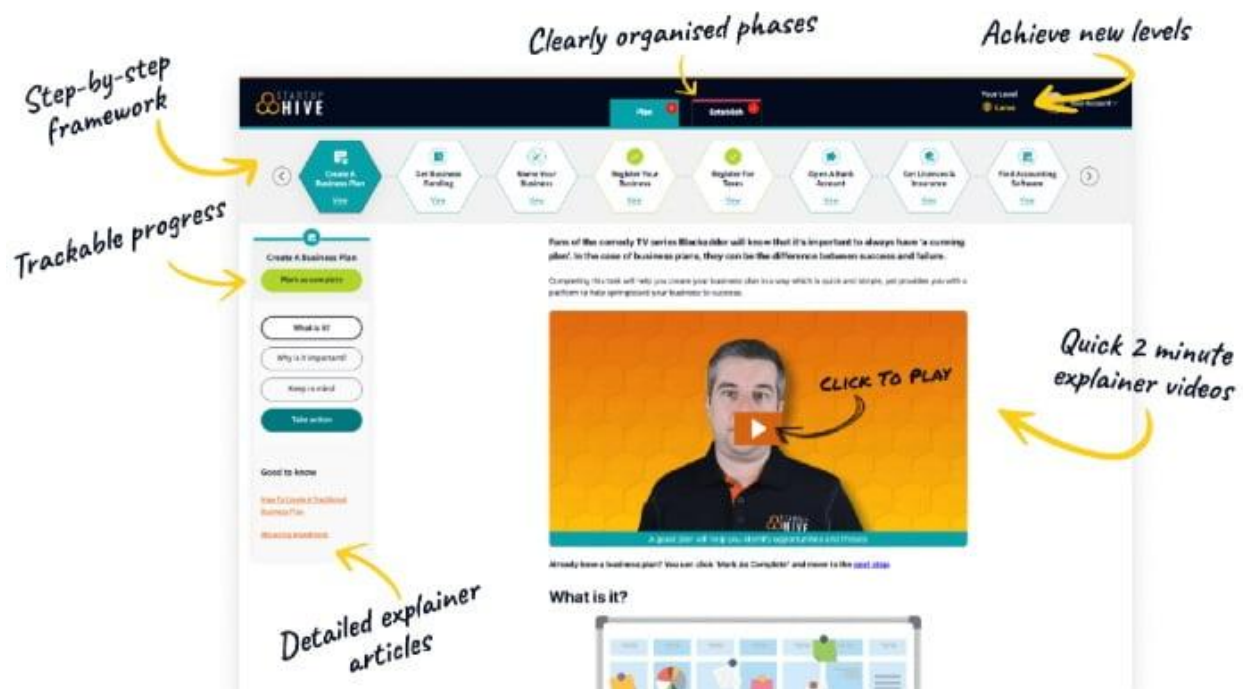
British culture and values are admired and managers tend to boast a more generalised skillset as opposed to a specialism, with relevant hands-on experience being more prized than academic educational accomplishments. British professionals also favour a friendly atmosphere among teams.

All this makes Great Britain the perfect destination for opening a business, whether sole-trading, limited, or any other form.

But how can you get started if you wish to open your own business? **This guide explains the process of opening a company including taxation, legal obligations, insurance, bank accounts, bookkeeping, and more.**

Starting A UK Business?

Get rid of the confusion and always know what to do next with [Startup Hive](#), the step-by-step platform created by the Business4Beginners team.



> Join For FREE <

Join today for 100% FREE access to the entire Plan phase, taking you from generating and validating your business idea, through to registering your business and ensuring all your key responsibilities are taken care of.

You'll end the phase by preparing your mindset to cope with being self-employed.

“Excellent guide to build your business”

“The perfect starting point”

“Incredibly simple and intuitive to use”

Get clear actions to follow then mark steps as complete to track your progress to your ultimate goals. Use the built-in AI tools to power up your ideas and easily generate PDFs that showcase your ideas (including a one-page business plan).

Startup Hive is your trusted companion as you look to turn all of your business dreams into reality. [Join today for free.](#)

—

Sole Trader or Limited Company?

The most common business entities in the United Kingdom are sole traders and limited companies. There were 3.4 million sole traders and 1.9 million limited companies in the country as of 2018.

If you've decided to open your own business, the first thing to do is to decide which one best suits your needs. This requires some basic knowledge about their differences. Before choosing the most suitable business format for your endeavour, however, you may need to [prepare your business plan](#) so that you get a clearer picture of where you want to see your business in five years.

So, let's take a look at how sole traders and limited companies differ.

Company formation

Setting up as a sole trader is straightforward. Once you have decided what name you want to trade under, you need to register for tax with HMRC. You will need to apply for a National Insurance Number if you don't have one and then for Self-Assessment. All paperwork is filed online. **The name you trade under will not be unique to your business.** Other sole traders can use the same or similar names.

Setting up a limited company, on the other hand, is more complex:

- First of all, your company needs a unique name. **To create a limited company you must decide on the name of your business.** You need to make sure this name is not used by another limited company.
- You will also choose **directors** and **shareholders** and set up a memorandum and the articles of association that will describe how your limited company will be run.
- You will then need to choose a **SIC** (Standard Industrial Classification) code to describe your company's main line of work.
- You must then set up a **Registered Office Address** in the United Kingdom, which you will declare to Companies House when you are registering your limited company with them.
- When you register your company with Companies House you will also register for **Corporation Tax**.

Registering as a sole trader is simpler and quicker than setting a limited company and requires less paperwork. Registering a limited company with Companies House usually takes 24 hours. You may require the help of an accountant or a [company formation agent](#) to set up your business and the articles of association.

Business entity

If Ms. Jones decides to open an architectural office as a **sole trader**, she will be the same entity as her business. **The law makes no distinction between her and the business.**

If Ms. Jones opts to create her architect bureau as “Jones City Architecture Limited,” her business has a separate entity for tax purposes—which is different from Ms. Jones’. **In this case, the business is its own legal entity.**

Although at first glance the difference may seem insignificant, it really matters.

Sole traders are personally responsible for their business. In the case of debt or lawsuit, they are liable for all their personal assets and finances, including their homes. **In the case of a lawsuit, the sole trader is sued personally.**

On the other hand, a limited company has limited liability—hence its name. The business assets and liabilities are different from the owner's assets and liabilities. If the limited company's owner fails and has debts, the losses belong only to the company. **Only the company's assets may cover the liabilities.** In case of a lawsuit, the company is sued but not the owner.

This difference is why many sole traders choose to have insurance such as professional indemnity and public liability insurance.

Taxation

Taxation is always based on business profits, which are the difference between sales and expenses.

In the case of a sole trader, things are fairly simple and many [sole traders handle their own bookkeeping](#). Sole traders pay taxes above the £12,500 threshold of the personal annual allowance. The first tax bracket is 20% for incomes from £12,500 to £50,000. You will also be required to pay Class 2 and Class 4 National Insurance contributions, depending on your level of income.

If you have a limited company, you have **two types** of taxable income:

- the company profits, which are taxed under corporation tax, and
- the income you make as the company owner.

All business owners also enjoy the £12,500 personal tax allowance. Shareholders do **not** have to pay Class 2 or Class 4 National Insurance. The owner's salary is deductible from the limited company's income. Once the company has deducted all expenses, it pays 19% taxed on its profits.

Owners of limited companies can then pay themselves a **dividend** from the profits after tax. The first £2,000 are tax-free, while the next bracket is taxed at 7.5%.

The taxation system favours limited companies with its kinder tax rates and the possibility to take advantage of both personal tax allowance and dividends.

Please note that numbers mentioned above are based on the 2020/2021 tax year and are subject to change.

Expenses

Sole traders can claim all expenses that are wholly and only related to their business. While the same is true for limited companies, the law recognizes more expenses for them.

Limited companies have more tax-free benefits compared to sole traders. For instance, a mobile phone expense for a sole trader would only be deductible at a percentage because the law recognizes that some mobile phone use will be personal rather than business. The same is valid for other types of expenses. Limited companies, however, have more leeway to claim expenses.

Obligations

The [legal obligations of a sole trader](#) are few and simple:

- Sole traders need to keep careful track of sales and expenses to fill in their tax returns.
 - They need to pay National Insurance and fill a Self-Assessment Tax Return to HMRC.
 - Submission and calculation of the tax owed are easy and relatively straightforward.
- Thanks to this simplicity, sole traders can usually manage their own accounting.

[A limited company's legal obligations are more complicated](#), which is why limited companies usually hire an accountant to manage all the filing, reporting, and submitting of paperwork:

- Legal accounting obligations for a limited company include Corporation Tax.
- They also need to submit an annual set of accounts to the Companies' House at the end of the accounting year. These records include the company's income and financial position.

Privacy

A sole trader's accounts, incomes, and profits are private and do **not** have to be made public.

A limited company's information is publicly available on the Companies House website, where records, accounts, directors, and shareholders' information are displayed and can be viewed by anyone.

So, if privacy is an issue, you may prefer to open a sole trader company.

Prestige

Clients, businesses, and contractors may perceive limited companies as more professional, efficient, trustworthy, and dedicated to their business compared to sole traders.

More importantly, clients also expect that a limited company will have someone step in to handle their affairs if one of the team members is indisposed in any way. This **continuity of service** is one of the biggest reasons why a client may prefer a limited company over a sole trader.

Banks hold the same perceptions as well. They are usually more willing to lend money to a limited company than a sole trader. **If you plan on borrowing money, your business format matters.**

Death

Although we seldom think about what will happen to our business if we die, misfortunes do occur.

When a sole trader dies, their business dies with them, since the law makes no distinction between sole trader and company.

In the case of a limited company, the business survives and can be sold or passed on since it is a separate entity from the owner.

Which one is best?

There is no right or wrong company format. While [there are many advantages to being a sole trader](#), [choosing between sole trader or limited company](#) depends on the entrepreneur's personality, goal, expansion plans, and financial state, among other things.

People often start as self-employed to get an idea of what it's like working for themselves. Once their profits increase and their business expands, they choose to turn their self-employment into a limited company for greater visibility, better access to financing, and more favourable taxation.

Here is a comparison list to give you an idea of the pros and cons involved:

Sole Trader	Limited Company
Simple registration process	More complex company formation
You'll likely pay more in tax	You'll likely pay less in tax
Lower setup costs	Higher setup costs
Lower-cost accounting	Higher-cost accounting
Less forms and red tape	More forms and red tape (but also more things you can do)
Access to tax allowances	Claim more benefits such as a company car
Your profit is your income	You can earn both a wage and dividends
More liability	Peace of mind if your venture fails
You'll need to rely on agencies, freelancers and consultants	You'll be able to hire employees
Limited access to funding	Easier access to investors and bank loans
Can be more friendly, as some customers	Can be more professional, as some clients

prefer dealing with individuals	prefer dealing with companies
---------------------------------	-------------------------------

Resources:

- How to apply for a [National Insurance Number](#)
- Register for [Self-Assessment](#)
- Set up a [memorandum and the articles of association](#)
- Choose a [SIC \(Standard Industrial Classification\) code](#)
- Register your company with the [Companies House](#)
- Register for [Corporation Tax](#)
- Fill a [Self-Assessment Tax Return](#)
- [Income tax rates](#)
- [File your confirmation statement with Companies House](#)

Legal Obligations for Companies and Sole Traders

Limited companies and sole traders have legal obligations that go beyond filing their taxes and keeping records of sales and expenses.

For example, most entrepreneurs need to have insurance for their business and their employees. They are also required to follow health and safety regulations, to clearly state their refund policies, and to inform clients when they collect personal data, among other things.

Many of the requirements are similar, no matter the business layout. Taxation and business organization regulations, however, depend on the chosen business format: [sole traders have fewer legal obligations than limited companies](#).

Legal obligations with regards to HMRC

For a limited company

With the formation of the limited company, the owner needs to register with HMRC. The most important legal obligations for a limited company are:

- **Confirmation statement to the Companies House.** This includes all the relevant information, including the company's directors, the existence of a secretary, the registered office, the number and names of shareholders, and the share capital. The Confirmation statement is amended every year so that the reality of the limited company is accurately represented on paper.

- For the same reason, any **changes** to the limited company, such as a change of address, the addition of new people with significant control (PSC), a change in the company name, or edits to the articles of association must be reported to the Companies House.
- You must also file the **company's accounts** once per year. This includes the **Statement of Income and Retained Earnings** and **Statement of Financial Position**.
- Finally, you must **file the company tax return** within a specific deadline and pay the respective **Corporation tax**.

For a sole trader

The legal obligations of a sole trader are less complicated. Specifically:

- Sole traders need to register for **Self-Assessment** with HMRC.
- They need to keep records of business **sales and expenses**.
- They **file a Self-Assessment tax return** every year within a certain deadline. The Self-Assessment describes the sales and expenses and presents the profit upon which the sole trader will pay taxes.
- They pay **income tax** and **National Insurance** (Class 2 and Class 4).

Insurance

There are several [types of business insurance](#). The list below is by no means exhaustive, as business insurance depends on the kind of business and the goods and services it provides. Some of the most common types of insurance include the following:

Employer's liability insurance

If you employ employees, you are legally required to have **employer's liability insurance**, whether you are a limited company or self-employed. This covers your business if your employee is injured, suffers health damages, or dies when working at your business and as a consequence of their employment.

Public liability insurance

If you have a shop, store, or any premise where non-employees visit (clients, customers etc.) you are legally obliged to have **public liability insurance**. This insurance covers any accidents happening to them during their stay at your premise.

Just like the employer's liability insurance, this type of insurance is regardless of your type of business formation.

Other insurance

Depending on your business, you may be legally required to have other types of insurance as well. For example:

- If you have employees driving cars, you will need **motor insurance** for the vehicles in question.
- If you serve **food**, you will need specific permits.
- If you serve alcohol, you will need a **licence from the local council**.
- If you are into healthcare, **professional indemnity insurance** is a legal obligation you must follow. This insurance protects you from lawsuits following potential malpractice.

GDPR

General Data Protection Regulations (GDPR) are a relatively new legal obligation, introduced in 2018. They dictate how businesses—no matter their format—can use, store, and protect personal data. While GDPR is EU-based, the regulations have an extraterritorial effect, so non-EU countries are also affected.

- As a business owner, you need to make sure you have the consent of the person to gather and keep their data.
- You need to display that consent whenever you are asked for it.
- You need to respect customers' or clients' decision to opt out and delete their information from your database.

Health, safety, and fire protection at your premises

If you have an office, shop, or similar premises and either have employees or receive customers and clients, you are legally required to follow health and safety protocols and fire protection.

- **Health and safety:** your employees and visitors should be in a safe environment. You must assess and minimise all health risks at your premises.
- **Fire protection:** you need to install a working fire protection system, which you will maintain at regular intervals. Depending on the circumstances, this may be a highly advanced fire suppression system or simply the existence of fire extinguishers at your premises.

Employment (PAYE)

If you are planning to hire employees, no matter your business format, you are required to register for PAYE (Pay As You Earn) and follow certain rules and regulations. Basically, you will be collecting income tax and National Insurance contributions from your employees, which you will then be paying to HMRC.

- You are required to pay at least the **National Minimum Wage** or the **National Living Wage** for employees over the age of 25.
- When hiring new employees, you need to supply an **employment contract** with details about the start date, the name of your business, the name of the employee, work-related duties, number of hours of work, pay, sickness absence, holidays, etc.
- For employees older than 22 years and earning more than £10,000 a year (as of 2020), you are legally obliged to enrol them in a **workplace pension scheme**. Such a scheme needs to be set up even if you are only employing a single employee.

Business website

Once you launch your business, you will probably [create a company website](#). Again, this must follow some specific legal regulations.

- GDPR require a **privacy policy** where you will describe the personal information your business will be gathering and how you will be using it. You should also include here any affiliated websites.
- You need to have a clear **cookie policy**, which you can include in your **privacy policy** in detail. Many also have a cookie consent pop-up appear once a visitor comes to your website.
- You should also mention **business information**, including your business name, physical address, contact details such as email address or phone number, VAT number, and whether you are a member of a trade institution. If your profession requires particular registration with an institutional body, include that information as well.
- If you sell services or goods online, you must comply with the 2013 [Consumer Contracts Regulations](#). You must inform your customers and clients about the goods and services you sell, how you sell them, how they can pay for them, the delivery method and charges, your cancellation policy and returns policy, the address for goods to be returned to, and any information or guarantee they should be aware of.

Your legal obligations

Whether you are a limited company or a sole trader, most legal obligations are similar. Differences occur when it comes to your obligations towards HMRC and the [accounting aspect of your business](#).

When it comes to insurance, employment, health and safety, and GDPR, your legal obligations are meant to protect your business, yourself, and your clients during any exchange. Following these legal obligations will make your business life simpler and could save you from future hardship.

How to Form a UK Company

Company formation in the UK is relatively straightforward, easy, and budget-friendly. Many accountants and accounting companies offer packages for company formation. However, individuals can also form a company on their own, with a little bit of help and some knowledge.

The most common company format in the United Kingdom is a **limited company**. According to Companies House, there are approximately 4 million limited companies in the UK. Their major convenience is that they are a different entity from the company owner: this means that the owner of a limited company is not personally liable for any company debts.

There are also 3.5 million **sole proprietorships** in the UK. It is easier and faster to form a sole proprietorship and requires very little paperwork.

How to form a sole proprietorship

A sole proprietorship or **sole trader** is a business that is owned and run by a single individual. There is no differentiation between the business owner and the business itself, the owner being accountable for all issues pertaining to the business.

[Setting up as a sole trader carries several advantages](#). For one, it is uncomplicated and fast. Most of the work is done online and requires very little help from an accountant or lawyer.

- If you do not have a **National Insurance Number**, you need to apply for one.
- Once you have a National Insurance Number, you need to find a **name for your business**. It can be your own name or any other name. However, whichever name you use, you do not have exclusive right to it. Likewise, you cannot add 'limited' or 'plc' to your sole proprietorship.
- After choosing your business name, you need to register for Self-Assessment online.
- If your turnover is more than £85,000, you also need to register for VAT. **VAT registration** for lower turnovers is optional.

How to form a limited company

If you feel a limited company is the way forward for your business, forming it requires a few steps. These are outlined below to help you understand the process, but you don't need to do most of this yourself: there are several [company formation agents in the UK](#) who can handle the entire process on your behalf.

Our recommended company formation agent:

 Rated #1 Best UK Company Formation Agent



Overall Rating:

9.4

Ease Of Use = 9.0

Value For Money = 9.3

Customer Support = 9.6

Services Offered = 9.5

PROS:

- Excellent user reviews and a great range of services offered
- Formations completed in as little as 3 hours
- Good value packages for non-resident formations & registered office services

CONS:

- Can feel like information overload at times
- Prices exclude VAT

Visit Website

[Or, read our full review, here](#)

Choose your company name

First, you have to [choose a name for your business](#). You cannot choose a name that is already in use by another limited company. Your business name should ideally be short and representative of your line of work. Before registering your business name, consider how it would look as a URL for your business website.

Register your company address

The next step is to **choose a company registered address for all official mail**. Many lawyers and accountants offer the possibility to use their address as the company's registered address. This registered address will show up on the Companies House and is the address of the 'headquarters' of your limited company. Keep in mind that the registered address must be in the corresponding geographical jurisdiction: English limited companies should have an England address, Scottish ones should have their address in Scotland, etc.

Name the people

It's now time to **name the director(s) and shareholders**. A limited company should have at least one director. When forming it, you need to name the director, their personal address, date of birth, and other details.

Your limited company will also have **shares and shareholders**. A limited company needs to have at least one shareholder who will be the **director**. If there are more than one shareholders, they need to be named, along with how many and what type of shares they hold. Future dividends will be distributed according to the shares each shareholder holds.

You also need to state any **People of Significant Control (PSC)**. You need to inform the Companies House of all people holding more than 25% of shares (at the time of writing) in your limited company. This is declared in the Confirmation Statement and is updated regularly.

Set up the Articles of Association

This is the set of rules and regulations that will govern your limited company. The **Articles of Association** define how dividends will be allocated, the responsibilities and powers of the director, the voting rights of shareholders, and any information that applies to the smooth operation of the limited company.

Choose a Standard Industry Classification (SIC)

This **SIC** represents the line of work your business will be mainly doing. This is a five-digit number that represents the economic activities in which businesses are engaged. When registering with Companies House, you need to choose at least one SIC; you are allowed up to four SIC codes. There are more than 600 SIC codes to choose from, so pick the one that one best represents your business activity.

Set up your company for Corporation Tax with HMRC

You can **sign up for corporation tax** online. You need to register within three months of starting your business. Most business owners do this when they register their limited company with Companies House.

If your turnover will be more than £85,000, you need to register for **VAT**.

Once your company has been formed, you can set up a **business bank account**. You can also print and publish all the promotional material that will have your business name on it, such as company stationary and invoices, website, social media presence, etc.

How long does it take to form a limited company in the UK?

Since all paperwork is digital and online, you should be able to register your limited company with Companies House within a day or two at the most. It is usually a matter of hours if you have all the information ready and available and if the system is not overloaded with applications.

Registering for VAT could take slightly longer. HMRC states that it could take up to one month for your UK VAT number to arrive to you, although most applications are dealt with in 10 to 14 days.

Forming a business in the UK is quick and easy

Once you have chosen which type of business suits you best—sole trader or limited company—[forming and registering a business in the UK](#) is easy and straightforward since most of the work is done online. Business owners should take time to [find the right name for their business](#). They should also [establish a viable business plan](#) that will make realistic assumptions about income and expenses.

Welcome to the world of business and entrepreneurship!

Useful links

- Apply for a [National Insurance Number](#)
- Register for [Self-Assessment](#)
- Register for [VAT](#)

From Idea To Successful Business...

- Step-by-step framework to plan, establish and grow any type of UK business
- Mark steps as complete to track your progress
- Create powerful PDFs (including business plans)
- Use AI to generate new ideas & website copy
- FREE to join and get started
- Created by the Business4Beginners team



Join Startup Hive For FREE

Choosing a Company Formation Agent

The easiest, most stress-free way to form a company is to delegate the work to a **company formation agent**. Whatever the company you want to create, be it a private company, a limited company, or a limited liability partnership (LLP), several company formation agents can deal with all the paperwork on your behalf, file all the applications online, and get you up and running in a matter of days, if not hours.

The first step is to choose what sort of company best suits your needs and future goals: [sole trader or limited company](#)? Once that is done, the simplest step is to choose a highly-regarded agent and let them do all the work. To choose the best fit for you, check out our [reviews of company formation agents in the UK](#) and see below what to look for.

Packages and pricing

Most company formation agents offer several packages. These include a wide variety of services related to company formation.

The first thing to do is to check the packages and see what is included in each of them. Most agents start by offering **basic packages** for a limited company formation. They then offer more **comprehensive packages**, which can include VAT registration or secretarial support.

When checking the packages, ask yourself whether the various packages on offer include all the services you will need. For example, do they offer a registered office for your limited company if you can't provide one?

Conversely, check to see if some of the packages include too many services, some of which you won't need. For instance, why pay for VAT registration if you don't plan on being a VAT-registered company?

The best thing to do is sieve through the packages, most of which are easily found online, and look at the services they offer.

Hidden charges

Packages that are too cheap probably just include the £13 (at the time of writing) government fee and not much more. Like everything else in life, when something is too cheap, there must be a reason. However, if basic company registration is the only thing you need from your agent, then the cheapest package might fit you perfectly.

If you are looking for more inclusive packages, always **confirm that there are no hidden charges** in the cost. For example, is VAT included in the cost of the packages? Is the government fee included? What if you want your physical documents to be delivered to you; are delivery costs incorporated in the package? Costs can easily build up and you may be looking at a higher cost than expected when it's time to pay the bill.

Speaking of physical documents, some formation agents only deliver digital documents rather than hard copies. We do live in a digital era, but you will probably need hard copies of your company register, incorporation certificate, share certificates, memorandum and articles of association, etc.

Instead of having to pay for a hard copy of all your necessary documents at a later date, confirm that your package includes hard copies of your documentation.

Do they offer support and advice?

Although setting up a company is straightforward, doing so for the first time could be intimidating and confusing. Having someone trustworthy to turn to could be useful and helpful.

Therefore, **check whether your company formation agent offers some limited consulting in their package**. If not, enquire about the cost of consulting and business advice.

Some agents offer a one-hour consulting service, which can be hugely helpful when setting up a company. They can advise you regarding the rules and regulations you will need to follow as a business owner. They will also remind you of all your legal obligations and share vital information, such as your accounting duties and the deadlines for your taxes.

Do they offer other additional professional services?

Setting up a company is probably the easiest part of being a company owner. But there are several services aside from the initial paperwork that a business owner will probably need.

Any business will require a [business bank account](#). Check to see whether your agent can help you set up a business bank account with the bank of your choice. Likewise, accounting, secretarial services, business telephone services, and VAT registration may require professional assistance.

These services are rarely included in the company formation packages. Enquire if your agent can deal with these extra matters for an extra fee. It is always easier and quicker to have one agent deal with all these issues rather than having to shop around or handle them yourself.

How will you communicate with your company formation agent?

Communication is key. Most communication happens online these days, but check on the company formation website to see how they usually communicate with their clients: by email, telephone, or live chat? Find an agent you'll find it easy to communicate with—and that includes having matching preferences concerning the means of communication.

Also, will you be talking to a dedicated agent or will someone new handle your case every time you call? Talking to the same person is ideal, as they will be familiar with you and any nuances regarding your company.

Finally, check how fast they respond to enquiries. Sometimes, time is of the essence and you need to trust your agent will be swift in getting back to you.

Choosing the right company formation agent

With a quick online search, it is easy to find a company formation agent who fits your needs and offers the necessary services. Read our [reviews of company formation agents in the UK](#) and the information above to pick the best match for you.

Be diligent and make sure your package includes everything you actually need—and, maybe, a few complimentary services—to ensure that your business formation will go smoothly and hassle-free.

This will give you peace of mind that all the paperwork has been filed properly and you will have plenty of time to focus on what matters: your work, your marketing, and your sales.

Our recommended company formation agent:

🏆 Rated #1 Best UK Company Formation Agent



Overall Rating:

9.4

Ease Of Use = 9.0

Value For Money = 9.3

Customer Support = 9.6

Services Offered = 9.5

PROS:

- Excellent user reviews and a great range of services offered
- Formations completed in as little as 3 hours
- Good value packages for non-resident formations & registered office services

CONS:

- Can feel like information overload at times
- Prices exclude VAT

[Visit Website](#)

[Or, read our full review, here](#)

How to Complete the Application Process for a Limited Company

Forming a limited company is straightforward and simple. The most important step is to complete the online application form to register your business with Companies House.

Even though most business owners choose a company formation agent to file all the necessary paperwork, it's good to have a general idea of what sort of information the application form requires.

The information you need to provide in the application form includes:

- the **company name**,
- a **registered office address**,
- the **names of all directors**, and
- some basic **information about what your company will do**.

Company name

The first step to [form a limited company](#) is to provide a **company name**. Unlike sole traders, a limited company's name needs to be unique and not used by another limited company. Your company name will also need to have the word 'limited' or 'ltd' added at the end of the name.

Registered office address

This is a legal requirement from Companies House. Your **registered office address** is not the personal address of the business owner(s) but the address where all the paperwork related to the business formation will be delivered, as well as legal notices and statutory letters.

Most formation agents provide a registered office address for a small fee. This address will need to be displayed on all paperwork, letterheads, and even on the company's website. **This address does not have to be your trading address:** it is the legal residence of your business.

Directors

You will be asked to name one or more **directors**. You will also need to include some personal information regarding the directors, including their home address. All information and paperwork for the business director(s) will be sent to that address.

Some people hesitate to give their family home address because this information will be available to the public at Companies House.

Fortunately, **most company formation agents provide service addresses**, again for a small fee. This means that your true home address will not be displayed in the public domain and your privacy will be protected.

Your business

You will be asked to supply information regarding the line of work your business will be in.

The Companies House website provides you with **Standard Industrial Classification codes (SIC)** that categorize business activities.

While you may choose **up to four** SIC codes, most companies choose one to describe what the company does when it first registers at Companies House. You can still undertake other lines of work in the future but need to update your SIC if the main business activity of the company changes.

Shares

A limited company issues **shares**. You can view shares as a piece of the business. A company needs to issue at least one share: in this case, the person will own 100% of the company.

If more than one share is issued, then the company belongs to as many people as there are shares.

Shares mean control

Shares do not need to be identical. One person may own 25% of the business and another 50%. **Profits are distributed according to shares:** in the aforementioned example, the person who owns 25% of the business will get 25% of the profits. Each share comes with a nominal value, usually £1.

Likewise, **shares give shareholders a say in the business.** Again, the extent of their say is dependent on their percentage of shares.

Share capital

A limited company has a **total share capital**. The total share capital is the amount of money invested by shareholders in the business. If each share has a nominal value of £1 and 100 shares were issued, then the company's total share capital is £100.

Types of shares

A limited company can issue different types of shares with different conditions and rights.

Ordinary shares are the most common type of share. They give shareholders the same rights and profit benefits; the only thing that changes is the number of shares each shareholder holds.

Like ordinary shares, **non-voting shares** give shareholders access to a share of the profits. However, these shareholders do **not** have a say over how the business is run. Non-voting shares are usually given to employees.

Redeemable shares are given to shareholders under the condition these shares will be bought back by the company after a certain amount of time. Again, this type of shares is commonly given to employees with the condition that the company can buy them back if the employee quits or leaves the company.

Preference shares give shareholders an advantageous position with regards to other shareholders when **dividends** are paid. Preference shares are paid out first. This preferential status is crucial if a business fails, as preference shareholders gain access to the company's assets before other shareholders.

People of significant control

The application form also requires information about any **people of significant control**. People of significant control own over 25% of shares and may influence the daily running and decision-making of the company.

Any persons of significant control will be asked to submit some personal information including their:

- name,
- date of birth,
- nationality,
- service address, and
- any other information pertaining to the business, such as the percentage of control they hold over the business.

Memorandum and articles of association

The **memorandum** states the shareholders' information at the time of the company creation.

This information includes:

- the company name,
- the business it will be doing,
- its starting date (or date of incorporation),
- the names and signatures of the founding shareholders, and
- the law under which they will be trading.

The **articles of association** are the rule book by which the company will function, distribute dividends, hold meetings, and distribute shares, as well as any other relevant information to the running of the company.

To keep things simple, most companies choose to use the **Model Article of Association** provided by Companies House. It simplifies things and is straightforward.

Conclusion

Setting up a limited company in the UK is fairly easy, even without the help of a formation agent. Most paperwork is available online, as is the application form. In most cases, the application form is registered with Companies House within three to five hours.

A **company formation agent** could be helpful if you require a registered office or a service address. They can also provide other services such as access to banks and consulting advice, which is always welcome by first-time business owners.

Read our [company formation agents reviews](#) to pick the one that best meets your needs.

Useful links

- [Company incorporation and names](#)
- [Information required from people of significant control](#)
- [Model Article of Association](#)
- [SIC codes](#)

Why Do I Need a Business Bank Account?

Once your business has been registered, your accountant will ask you about opening a business bank account. This crucial next step involves opening a dedicated commercial account through which you will be doing all your business transactions—i.e. all your sales and expenses.

Sole proprietorships are not required by law to have a business account. However, it is mandatory for limited companies to open a business bank account in the name of the business. All business transactions must go through this account.

Most company formation agencies will help new entrepreneurs open a business bank account. As you will see, there are many benefits to having such an account and they make sense at several levels.

1. Clean and meticulous bookkeeping

With dedicated [business bank accounts](#), all payments, expenses, and incomes are easily traceable. There is no mixing of personal and business transactions since all business transactions are carried through a separate account. Cheques, sales, and all sorts of payments and expenses can be identified.

Mixing your personal finances with your business ones is never a good idea. To be lawful, you would have to sift through hundreds of transactions from supermarkets, shopping, and other necessities to find the ones that are related to your business. Not only is this time-consuming and complicated, but you also risk missing some business-related payments and expenses.

Likewise, when filing your taxes, it is much simpler to go through your business account and write down your expenses and sales to see how much your profit was. You will thank yourself for being so forward-thinking about your finances.

2. Manage many transactions

Managing four or five transactions per month is probably doable, even if you don't have a business bank account. But if you rely on retail, for instance, you may be looking at tens or hundreds of transactions per day. Keeping track of such transactions through a personal bank account can be difficult.

A business bank account will help your business by ensuring that even the smallest transaction will be documented. You will have the certainty that nothing has been missed. It will also save you time from combing through hundreds of small transactions, trying to find the ones that are connected to your work. This will do wonders for your [business bookkeeping](#).

3. Apply for loans

If you want to expand your business, you may require extra financing through a loan. The existence of a business bank account will give you creditworthiness and offer the bank a clear insight into your profitability, type of expenses, and cash flow. This saves you precious time in due diligence as the bank already has much of what they need.

4. Apply for credit cards

Only commercial bank accounts may accept credit card transactions. Most people nowadays pay by either debit or credit card. As a business owner, you will need to offer debit and credit card payment options to your customers and clients, otherwise you risk losing out to the competition.

A business bank account will let you accept credit cards and offer you access to point of sale systems (POS) and e-commerce platforms.

5. Look professional

A business bank account makes you look professional. Your business name will be on the cheques you issue and on all the payment methods you offer. This provides your business with a professional image that gives clients and customers the security and confidence to do business with you.

6. Handy if you wish to sell

If you decide to sell your business, a business bank account will tell the whole story of your business finances and health.

Prospective buyers will see how your business has been doing through the years with a simple look at your account. This clear accounting will document your business achievements. Also, prospective buyers will feel they are dealing with a professional who is dedicated, organized, and meticulous. This makes a great first impression and adds credibility to your business.

7. It will make it easier in case of an audit

Audits from HMRC are nothing to be scared of, as long as your business transactions are clearly depicted in a business bank account.

Your sales and expenses will be recorded through the transactions and this will be represented in the documents you have filed with HMRC. An easy cross-checking will confirm the accuracy of your filing.

8. You will have a dedicated business credit card

With a business bank account, you could ask for a business credit card. This way, you will be able to make payments strictly connected with your business without having to use your personal credit card.

Again, this makes your bookkeeping easier, clearer, and more accurate. All your business transactions will be linked to a single business bank account and you will have a business credit card for all your shopping, either in the UK or abroad.

As a reminder, the existence of a business bank account makes your application for a business credit card easier. The bank will have access to your credit history and will know right away how your business is doing and whether you are a trustworthy business with a good credit history.

You need a business bank account to simplify your life and have clear bookkeeping

[Sole traders and limited companies have some key differences](#). Sole traders could benefit from a business account, which would give them credibility and a clear distinction between their personal and business finances. However, opening one is not strictly necessary.

While a sole trader may get away with a personal bank account, at least at the beginning, you definitely need a business bank account if you are [forming a limited company](#).

Such a commercial account will give you credibility and access to loans and credit card transactions. Above all, it will give you a clear image of your business income and expenses.

When filing your Corporation Tax with HMRC, you will find how easy it is to do a reconciliation agreement between your bank account and your business.

How to Organise Your Bookkeeping

As Benjamin Franklin famously stated back in 1789, nothing is certain except for death and taxes. Not much has changed since: there is still no way to escape doing your taxes.

Bookkeeping, however, doesn't have to be a chore. It offers an opportunity to keep an eye on your company's profitability and alert you to any problems before they become insurmountable. And with the help of online bookkeeping software or an accountant, they don't need to take up much of your time.

Kinds of bookkeeping

Once your business entity is up and running, the next thing to do is decide who will handle your bookkeeping. [Bookkeeping for sole traders](#) is fairly straightforward and could almost be done with just pen and paper, although digital bookkeeping is always easier and more practical.

[Bookkeeping for limited companies](#) is more complicated and requires more attention. But there is also specialised software that can help you take care of your taxes, invoices, and expenses.

Our recommended accounting software:

🏆 Rated #1 Best UK Accounting Software



Overall Rating:

9.4

Ease Of Use = 9.8

Value For Money = 9.1

Customer Support = 9.4

Features = 9.2

PROS:

- Unlimited users, clients, and projects on all plans
- No lengthy contracts or hefty set-up fees to worry about
- Very intuitive platform is easy to learn to use

CONS:

- Some users report the pricing is a little higher than comparable software
- The reporting features are somewhat limited if you're big into data

Visit Website

[Or, read our full review, here](#)

What is involved in bookkeeping?

In a very rough explanation of taxes and accounting, **bookkeeping keeps a record of your income (sales) and expenses**. Expenses are deducted from your income: this is your profit upon which you pay taxes.

The documents and files that are important in bookkeeping include the following:

- **Invoices.** You send invoices to tell your customers or clients how much they owe you for the services or goods you provided.
- **Expenses.** These are the expenses related to your business. They can be the purchase of a computer, heating expenses, or even pens and pencils for your desk.
- **Bills and payments.** These are sent by your suppliers when you need to pay for their services.
- **Bank statements.** They are here to document the payments that come in and out of your account. If you have a dedicated business bank account—which, in the case of a limited company, is compulsory—you will have a clear picture of how much money your business earns and spends and it will give you a general idea about your cash flow and your business growth.
- **Important documents:** VAT numbers, HMRC documentation, National Insurance Numbers, and other documentation that is relevant to your running your business and, therefore, your accounting.

Bookkeeping for a sole trader

Your official duties

Although you are not officially required to have a business bank account, it is best to have one so that your personal finances are distinct from your business ones.

When you set up your business as a sole trader, you will be asked to meet certain [legal obligations to start your business](#).

The first requirement is to register with HMRC for self-assessment tax returns. This means you are responsible for filing your taxes on a given date.

You will also be asked to register for National Insurance Contributions, Class 2 and Class 4. Class 2 contributions amount to £3.05 per week for earnings more than £6,475 at the time of writing. Class 4 contributions are 9% on annual profits between £8,632 and £50,000, as of 2020.

Your personal income allowance as of 2020 is £12,500. Since your business is you, you will pay income tax above profits of £12,500. For incomes from £12,500 to £50,000, the tax bracket is 20% for 2020.

Accounting records for a sole trader

Depending on your business, you need to keep accounting records of your income and expenses. Any sales you make must be recorded in the form of an invoice.

The expenses that are recognised as valid expenses for your business depend on your work. For instance, if you are an architect, some traveling expenses to visit building projects can be deducted. However, you may not deduct traveling costs for holidays or to go to the supermarket.

You can deduct the purchase of material necessary for your work, employee salaries, rent for your office or shop, heat, insurance, electricity costs, etc. If you decide to market your business and spend on ads, online advertising, and leaflets, these are deductible expenses as well.

How do I keep records of my accounting?

You can always keep your bookkeeping records in physical format. It is not illegal but it might be impractical. It is far easier to use cloud accounting software that will keep all your records online. You will have easy access and a clear picture of how your business is doing.

There are many providers of [online bookkeeping services software](#) to choose from. Most of them automatically create invoices to send to your customers and clients, calculate VAT if you are VAT-registered, manage payroll if you have employees, and check your cash flow to alert you if something is amiss.

Bookkeeping for a limited company

The philosophy behind bookkeeping is the same for everyone: recording sales and expenses and taxing profits.

Limited companies are officially asked to file more documents and have more responsibilities with regards to HMRC. It is, therefore, more difficult to keep a physical record of the transactions. It is far easier to use online accounting software to handle your accounting duties if you wish to manage your company's finances by yourself.

However, you can always [delegate your bookkeeping to an accountant](#), who will file all the appropriate paperwork and prepare your taxes.

Your official duties as a limited company

Some basic aspects are valid for sole traders and limited companies alike. **Limited companies are required by law to have a business bank account.** This makes it easier for limited company owners to avoid mixing their personal and business expenses.

A business bank account also gives you the opportunity to have a business credit card to make purchases dedicated to your business. Additionally, it is an important step if you want to apply for credit or a loan: the bank will check your business bank account to gauge the health and wealth of your business.

Annual accounts must be prepared at the end of the financial year in a prescribed format and filed with Companies House. The records submitted include a balance sheet, a profit and loss account, and the Director's report.

Limited companies are also asked to file a **corporation tax return** with HMRC and pay **corporation tax** on profits, which currently stands at 19% (as of 2020).

[If your limited company employs personnel](#), it needs to file PAYE, where income tax and national insurance contributions are deducted from the salaries of the employees. They are paid on a monthly basis.

Finally, if your limited company makes more than £85,000, you need to register for VAT. VAT stands at 20% for 2020. You will charge 20% VAT on all your invoices. You will be able to deduct all VAT you pay for your expenses from the VAT you charge your clients. If the VAT you get paid is more than the VAT you pay for, you will need to pay the net amount to HMRC. VAT reports are prepared quarterly.

Accounting records as a limited company

The limited company is asked to record all the money it receives for the services and goods it sells as well as the money it spends on expenditure that is related to the running of the company. These are **invoices** and **bills**.

If a limited company owns **assets**, it needs to include them in her records, along with any debts the business owes or is owned.

A limited company also needs to log the **stock inventory** at the end of each financial year.

Online software or accountant?

A limited company owner can subscribe to [online accounting software](#) that will help record, keep track, and remind them of duties, deadlines, and payments. The software will also alert them about potential cash flow problems and offer a picture of their financial position.

Alternatively, a limited company owner can turn to an accountant who will take care of all their accounting, recording, and filing needs for a fixed monthly fee or an hourly rate. As this person will have access to all your company details, make sure you [ask the right questions when you hire an accountant](#).

It is the duty of the accountant to sort the invoices and expenses in their respective category and organise the accounts, as well as file all the appropriate paperwork with HMRC and Companies House.

However, **having an accountant does not completely unburden a business person.** Invoicing and gathering expenses are still some of the duties that business owners must do, as they are the ones directly involved with these.

Best practices for all entrepreneurs

No matter who does your accounting, it's good to adopt certain best practices that will make your life simpler and safer:

- **Dedicate some time every day to issuing invoices and paying bills.** This means you will get paid quicker for work you have done and you will pay your suppliers in a timely fashion. This habit will keep your cash flow updated almost in real-time.
- **Check your bank statements:** they give you an idea of where your business stands. They also give you clues about expenses or incomes you might have forgotten to include in your accounts.
- **Put money aside for your taxes:** try putting a little money aside every month to cover for tax. It will be much easier to pay your corporation or self-assessment tax if you already have the money in the bank.
- **Keep your bookkeeping organised on a yearly basis:** this way, you will have all the relevant information for any financial year, be it invoices, expenses, bills, or bank statements.

Bookkeeping: the inescapable duty

Whether you are a sole trader or a limited company, bookkeeping is something you will need to face.

Sole traders can generally manage their own bookkeeping either on their own or with the help of online accounting software.

Limited companies have certain accounting duties that require deadlines to be respected. They also need to file various accounts with HMRC and Companies House. Bookkeeping software will make their life much easier and safer with respect to due dates and payments.

In some cases, it is more profitable for a business owner to work on their business and delegate their accounting to a professional accountant who will take care of the everyday accounting tasks.

No matter how you organise your bookkeeping, keep an eye on the financial side of your business. It will give you a picture of where your business is heading and how you can expand.

If you follow the tips above, you have nothing to fear from bookkeeping!

Using and Choosing Accounting Software

There are three ways to handle your bookkeeping: keep physical records on paper, bookkeeping in spreadsheet form (e.g. Microsoft Excel), or use accounting software.

Since April 2019, [HMRC has made all tax records digital](#). This simplifies life for business owners and makes it easier for HMRC and taxpayers to keep records of their tax revenues and tax duties respectively.

With that in sight, **accounting software becomes an urgent and necessary investment for your business accounting needs**. If you have chosen to do your bookkeeping and accounting yourself, then accounting software will save you time and effort, giving you peace of mind.

Let's take a look at [how accounting software can benefit your business](#) and what you should be looking for when choosing the accounting software package that best suits your needs.

What does accounting software do?

Accounting software simplifies your bookkeeping and provides automated reports, invoices, and tax filing.

Accounting software can issue invoices, check your bank statements, calculate your VAT, and file for payroll. It also provides balance sheets on profits, losses, and cash flow. It can help you identify your best customers or the ones who owe you money. And it can give you an estimate on your tax liability for the current tax year.

Such conveniences not only streamline your accounting duties, but also offer a clearer picture of your business standing and its financial prospects.

Choosing your accounting software

There are several accounting software packages on the market. Most of them rely on a monthly subscription basis, which depends on the type of business you run. Broadly speaking, the cost is usually below £30 per month and some of them offer free trials and discounts for the first months of use.

You first need to evaluate your needs

Once your business has been set up, you need to establish your accounting needs:

- **Are you VAT registered?** If so, you need to choose an accounting software package that includes a VAT module.
- **Will different people access your accounting software?** In that case, you might need to provide them access with different permission levels, depending on who uses the software.
- **Are you employing personnel?** You then need the payroll module, which will file all the necessary paperwork and calculate National Insurance, PAYE, and all other duties you have to pay with regards to your employees.

What most accounting software do

Most accounting software has been developed to provide an extensive range of services. Here are some common modules you can include in your package.

Issuing invoices

The most important module is invoicing. Your software will help you issue invoices and send them to your customers and clients. It will then categorize each client and record the sale.

Most accounting software lets you customize your invoices. This is particularly helpful if you have long invoices with terms of sales and conditions. It is also great for branding purposes, as you can include your logo, contact information, promotional messages, etc.

Finally, your accounting software will help you issue receipts, pay invoices, and track your payments to your suppliers. Again, most software lets you customize these forms in a way that makes them unique to your company.

Stock

If you are selling goods, you need software that keeps track of your stock and inventory and updates them in real-time. This will give you a clear picture of your stock and let you know when you need to order again.

The software will also show you which items are in greater demand. This is great statistical information that can inform and guide your business decisions.

VAT

Most accounting software includes a **VAT invoicing module** and will produce a VAT return as necessary. Some software can even **submit your VAT return to HMRC**, which is highly practical and saves you time.

Reporting

The greatest strength of accounting software lies with data. Accounting software provides information and reports on your profits, losses, sales, best customers, monthly balance sheet, debtors, and creditors.

Accounting packages will also display how long it takes for your invoices to get paid from each customer—a useful tool when discussing terms of trade with customers and clients.

Link to your bank account

Many software packages include a module that **links your business bank account with your accounting**. This makes it easy to follow your expenses and sales from credit and debit cards. It also facilitates bank reconciliation.

Payroll

You will need the payroll module if you have **employees**. This feature will prepare your payroll filing automatically, which can be a huge time saver.

Things to consider when choosing your online accounting software

Most businesses will be perfectly covered by one of the existing accounting software on the market. Before choosing the one that fits your needs, here are a few extra features you need to consider.

- **Will you be trading globally?** If so, make sure your chosen accounting software incorporates such a feature.
- **Will you be trading in different currencies?** Again, different currencies require special accounting handling.
- **How far is your accounting customizable?** If you are looking for more freedom, make sure your accounting software is customizable to cover your needs. Modular software lets you pick the modules you need, thus creating a highly customizable solution.
- **Can you import and export data automatically?** This feature will save you from inputting data twice.
- **Is it mobile-accessible?** Most accounting software is cloud-based, therefore you should have access to your data from anywhere in the world. While most accounting software is mobile accessible, make sure yours is, too.
- **What type of support does it offer?** Think about the type of support you want to have and then see which accounting software offers what you are looking for. Some let you call a representative while others actively discourage it. How do you feel comfortable communicating with the software provider in case you need help?

- **How easy is it to use?** There will obviously be a learning curve to understand how your software works. But no two users are the same. Make sure your software is easy to use and intuitive to you. If you have an accounting team, make sure you ask them their opinion about the software: they are the ones who will be using it the most.
- **Are you self-employed?** [Self-employed accounting software](#) may differ from accounting software aimed at limited companies.

Accounting software was created to simplify our lives and make bookkeeping easier, faster, and digital. Choose one after consulting one of the many [accounting software reviews in the UK](#) online. All you need to do is decide which software fits your needs and helps you the most in the day-to-day running of your business.

Our recommended accounting software:

🏆 Rated #1 [Best UK Accounting Software](#)



Overall Rating:

9.4

Ease Of Use = 9.8

Value For Money = 9.1

Customer Support = 9.4

Features = 9.2

PROS:

- Unlimited users, clients, and projects on all plans
- No lengthy contracts or hefty set-up fees to worry about
- Very intuitive platform is easy to learn to use

CONS:

- Some users report the pricing is a little higher than comparable software
- The reporting features are somewhat limited if you're big into data

[Visit Website](#)

[Or, read our full review, here](#)

Key Dates and Obligations You Need to Meet

Whether you are a sole trader or a limited company, you need to file your taxes and relevant paperwork by certain dates that are specified by HMRC and Companies House.

The first year's accounting deadlines can vary for limited companies, depending on how you will be calculating your accounting period. This is stated and filed with Companies House at the start of your business.

There are several significant dates that business people need to keep in mind to avoid fines and missed deadlines. However, these are pretty straightforward once the company has started doing business.

[Hiring an accountant](#) will give you peace of mind as it is their responsibility to remind you of your duties and payments. Even with an accountant, though, it's worth keeping track of accounting periods and due payments. Just follow the following guidelines!

Accounting dates for sole traders

Accounting and tax year

As a rule, the accounting and tax year starts on April 6th of each year for [sole traders](#) and ends on April 5th the next year. The idea is that sole traders pay taxes on the profits of a year's earnings.

An accounting year refers to an actual year of earnings and profits. The accounting period, however, may refer to a different time span if you start your business in the middle of the current accounting year.

Sole traders are advised to use the same accounting and tax years. It is simpler to calculate taxes and other obligations if you match your accounting period to your **basis period**—the period that HMRC assess you to tax on. This makes things easier and matches HMRC tax filing.

Most sole traders adopt the 31st of March as the end of their tax and accounting year. HMRC accepts the 31st March as equivalent to the 5th of April, which is the end of the tax year. Therefore, your obligations to HMRC follow your other tax obligations.

Self-assessment

If you are a sole trader, you need to file for **self-assessment**. This lets you calculate yourself the profit you have made as a sole trader, defined as the difference between your sales and deductible expenses.

The deadline for the self-assessment submission depends on whether you are submitting it by paper or online.

If you file a **paper self-assessment**, you need to submit this by October 31st. For example, if your tax year is April 2020 to April 2021, you need to submit your paper self-assessment by October 31st, 2021.

However, if you submit an **online self-assessment**, then the deadline is January 31st. In our example, this would be January 31st, 2022.

No matter how you choose to submit your self-assessment, the deadline for the **payment of income tax** for the previous accounting year is January 31st.

Payments on Account

As a sole trader, you are asked to make payments on account at specific dates.

A **payment on account** is an amount of money paid before the deadline for the payment of income tax. It is used towards the tax due in your current tax year.

Payments on account are necessary because, when you file for your self-assessment, you are already well in the next tax year. In order for HMRC to ensure the prompt collection of taxes, they ask for a prepayment of taxes for the ongoing tax year. In 2020, sole traders were asked to make payments on account if their payable tax for the previous tax year was above £1,000.

HMRC makes an estimate, based on your previous tax year, including your Class 4 National Insurance bill. In 2020, this payment was made as follows:

- 50% was paid on account on January 31st of the current tax year
- The remaining 50% on July 31st, when the tax year had finished (remember that the tax year ends on the fifth of April of each year).

So, on January 31st of each year, a sole trader is asked to pay the previous year's taxes plus 50% of the current year's taxes.

If your two payments on account (made on January 31st and July 31st) were more than the taxes you owe for the current tax year, then a **rebate** is issued and the difference is returned to you.

Class 4 National Insurance

Class 4 National Insurance is payable on the same dates as income tax. In 2020, this was January 31st and July 31st.

Class 2 National Insurance

Class 2 National Insurance is paid on January 31st, after the end of the accounting year, irrespective of whether you are paying payments on account or not.

Accounting dates for limited companies

If you are a [limited company](#) owner, you have a similar set of obligations with regards to HMRC and Companies House.

Your accounting period is the same as for sole traders, namely it runs from April 6th to April 5th the next year.

For all intents and purposes, most limited companies choose March 31st to be the end of their accounting year. This is because it matches the dates for income tax, corporation tax, and payroll tax. Having a single date simplifies accounting and makes it more practical to file the necessary paperwork.

Corporation tax

The deadline for payment of your corporation tax is nine months and one day after your accounting period. As the accounting period usually ends on March 31st of each year, then your corporation tax is due on January 1st the next year.

Corporation tax return

The corporation tax return needs to be filed with HMRC within **12 months of the end of the tax period.**

Company accounts

Company accounts need to be filed with Companies House **9 months after the year's end.**

Confirmation statement

This is filed with Companies House at the anniversary of incorporation. If you started your limited company on February 10th, then this is the date for your confirmation statement.

VAT

Whether you are a sole trader or a limited company owner, if you are registered for VAT you need to pay VAT at specific dates. VAT registration is optional for businesses with a turnover of less than £85,000 (as of 2020). It is compulsory for turnovers over that amount.

VAT is filed and paid quarterly. If you file your VAT online—which is easier and quicker—you need to do this **within a month and seven days** from the quarter's end. You also need to make the payment simultaneously electronically.

PAYE

If you have employees, you are required by law to pay PAYE (“Pay As You Earn”) to HMRC unless none of your employees are paid £120 or more a week, get expenses and benefits, have another job, or get a pension.

You may choose to [outsource your PAYE and payroll requirements](#). You may also choose to pay your PAYE on a monthly or quarterly basis.

If you pay on a monthly basis, then PAYE is due on the 22nd of the next tax month. For instance, for May 2020, it would be June 22nd.

If you pay on a quarterly basis, then PAYE is due on the 22nd of the month at the end of the quarter. If your quarter starts on September 10th and ends December 9th, then PAYE is due by December 22nd. However, this is only valid for electronic payments. For payments by cheques, payments must be sent by the 19th rather than the 22nd of each month or quarter.

Remembering deadlines

Failure to meet accounting deadlines could result in fines. In order to avoid such penalties, it is best to organise a calendar with your duties and obligations depending on your business setup.

If you have an accountant, they will remind you the dates to make the payments. However, it's always good to keep an eye on accounting deadlines, as you will need to have put money aside for payments. Being reminded at the last minute of a looming payment deadline can be daunting and stressful. It's always best to be prepared and well-informed!

Good Luck!

Few nations offer a business environment as friendly as Great Britain. With its long tradition in accountable democracy and free-market economy and its dislike of red tape and exchange controls, you can start your new company within a few hours, whether sole-trading, limited, or any other form.

We hope the information above has explained the processes involved and helped you choose which company form best fits your needs.

For any help or additional information regarding taxation, legal obligations, insurance, bank accounts, bookkeeping, reviews of formation agents and accounting software, and more, **check out [Business4Beginners](#) - the ultimate destination for all your company-related questions in the UK!**

From Idea To Successful Business...

- **Step-by-step framework to plan, establish and grow any type of UK business**
- Mark steps as complete to track your progress
- **Create powerful PDFs (including business plans)**
- Use AI to generate new ideas & website copy
- **FREE to join and get started**
- Created by the Business4Beginners team



Join Startup Hive For FREE