

Revised & updated

Contractor Guide

Setting up your own limited company

Introduction

So, you're considering becoming a limited company contractor. That's great news. Before you start, you may want to find out more about what's involved. Here we outline everything you need to know, from answering key questions such as "what is a limited company?", to explaining how to set up and operate your company and how to organise your business accounts. Let's get started!

Working as a contractor can be highly rewarding. You'll have greater freedom over when, where, and how you work, as well as the ability to decide what roles you undertake.

Setting up your own limited company and beginning work as a contractor is very exciting. In addition to the control and flexibility it imparts, contracting can also be a more lucrative way of working. Many organisations are willing to pay higher rates to temporary workers whose skills plug gaps in their employed workforce.

Despite the benefits of contract work, you may be daunted by the prospect of becoming a contractor because of the rules and regulations which govern flexible working. There's the issue of IR35 to deal with, and then there's the concerns of how you pay yourself and pay tax compliantly. How do you work out how much you have to pay, by when, and how?

There's certainly a lot to think about as you set yourself up as a contractor, which is why our team of specialist accountants is on hand to help you navigate your way through the complexity.

In this guide, we explain what's involved in becoming a contractor and managing your own limited company, so that you can decide whether it's the right choice for you.

Our team of experts is on hand to answer any questions you have about starting up, tax, or any other elements of contracting. So please get in touch:

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If you've decided that contracting is right for you, but you're not sure whether you should start up your own limited company or work as an Umbrella employee, here's a quick summary on what it means to own a limited company.

A limited company is a separate legal entity which is owned by its shareholders, and operated (run) by its directors. A limited company has its own income and expenditure, can enter into its own contracts, and has to pay its own taxes.

When setting up your own limited company for contracting this will commonly be referred to as a Personal Service Company (PSC). In a PSC, the director and shareholder is normally the same person - you. You will be responsible for the day-to-day operations, compliance, and ensuring accounts and tax returns are completed and submitted on time.

While this may sound like a big responsibility, if you get the right help, it's actually a relatively simple way to work.

Working through a limited company comes with many benefits including flexibility, financial control, and tax efficiency.

- One of the main appeals of operating your own limited company is that it gives you complete control over your finances. Plus, you can retain more of your contract rate as you can pay yourself in the most tax efficient manner.
- Many contractors find that a limited company gives them enhanced status and a more professional image, so they are able to win more lucrative work or command higher fees.
- Another reason to set up a limited company for contracting is the flexibility to your working hours. You can manage your work-life balance to suit you, and, depending on your line of work, you could work from anywhere, giving you greater freedom.
- As a contractor, you'll also benefit from the ability to choose exactly which assignments you take, meaning that you're always developing your skills and moving towards your future aspirations.
- You should also find that you benefit from a limited liability status. This means that, since your company is its own legal entity, and it entered into the contract to supply a service, you have a level of financial protection if there is a dispute, assuming all rules have been followed and you have worked compliantly.

There are many great reasons to choose limited company contracting. But, before you decide, it's important to bear in mind two important considerations:

IR35 compliance.

IR35 is designed to stop tax avoidance by anyone who supplies their services via an intermediary (such as a limited company or a recruitment agency), just to save tax. It will be important to make sure you can operate 'outside' IR35 before you decide if limited company contracting is right for you, as it will affect the amount of tax you have to pay.

Admin responsibilities.

Running your own limited company comes with a level of responsibility and paperwork, explained below. It's important to make sure you're comfortable with administering your company properly before proceeding.

Don't worry, we're here to help

At JSA, we have over 30 years of experience in helping limited company contractors. We'll take care of the admin and compliance headaches that come with contracting, so that you can enjoy the free and flexible lifestyle with peace of mind that you're working compliantly.

If you choose to work as a limited company contractor, you will need to ensure you are aware of off-payroll (IR35) and the upcoming reforms to guarantee you're working compliantly.

Under the current IR35 rules in the private sector, it's your responsibility as a contractor to determine your own IR35 status for each assignment and re-examine your IR35 status if that assignment changes. If the correct rules are not followed, and HMRC makes a successful challenge, you are liable for any unpaid tax, interest, and penalties.

However, another version of these rules, known as 'off-payroll', will come into force for large end hirers in the private sector in April 2021. This means that the liability which previously sat with you, may be shifting to your end hirer and recruitment agency. They will now need to balance the financial risks they face with the challenge of retaining their contractor talent pool.

To be ready for the reforms to come into effect, your assignment will need to be assessed to see if it is employment-like ('inside' IR35) or more like self-employment ('outside' IR35). The results of the assessment will be confirmed on a Status Determination Statement (SDS) and it is the responsibility of the end hirer to ensure this is prepared (although the supply chain may help). The SDS takes into account various different factors such as mutuality of obligation, supervision, direction, and control. The results of the SDS will detail whether you're operating 'outside' or 'inside' IR35, which can affect how much tax you have to pay out of the contract rate your company receives.

Inside IR35

You should take some time to reconsider your working options. You will have more tax to pay as you are considered to be acting as an employee rather than a contractor. It may be appropriate to switch to Umbrella. We can help you assess your options and determine the approach that suits you best.

Outside IR35

If you are 'outside' IR35 and operate as a limited company contractor, you will have less tax to pay as you are not considered to be acting as a pseudo-employee, so you can continue to pay yourself through a mixture of salary and dividends.

With IR35 Complete from JSA, we provide a holistic suite of solutions with straight-forward IR35 assessments and insurable outcomes so you can work compliantly with complete peace of mind.

To ensure you are compliant with the new or old rules, you will benefit from undergoing a status assessment yourself, in advance of the new rules coming in. This will enable you to work through your own limited company, as long as your status is 'outside' IR35. However, if you are considered to be 'inside' IR35, you will have more tax to pay and may need to reconsider your working options.



At JSA, we have a 30 year pedigree in the provision of compliant contractor payments and accountancy, and we have experienced similar legislative change in the public sector in 2017, so we are well placed to help you prepare.

Our in-house assessment tool

Our in-house IR35 assessment tool is a simple way for you to determine the status of your assignments, which is **your responsibility until 6th April 2021**. Designed with simplicity in mind, our instant assessment tool provides regular updates and re-assessments where necessary so that when you switch between contracts, or the terms of your contract change, you can be sure that you're being paid correctly.

We can also help you toggle between 'inside' and 'outside' contracts using a mixture of PSC and Umbrella contracting. This allows you to continue to work on contracts that are 'outside' IR35 as much as possible, while ensuring assignments that are classified as 'inside' are dealt with professionally and accurately. We'll do the work to help you toggle compliantly, it's a simple and easy process which allows you to maintain the flexibility that comes with contracting in spite of the new legislation.

Benefits of JSA's in-house assessment tool include:

- Simple and easy to use, producing an instant and reliable SDS result
- Meets HMRC's requirements for valid Status Determination Statements
- Makes a firm judgement in borderline cases
- Allows the supply chain to continue to engage 'outside' IR35 contractors, where compliant
- Complete supply chain solution - clear and transparent communication between all parties
- Efficient and straight-forward online user portal to access your data quickly and in one place
- Easy access to preferred suppliers, so you can make a great choice if you have to reconsider your working options.

Forming & running your company

It's important to understand how to set up and run your limited company so that you work compliantly and achieve the best take-home pay.

In this section we will take a closer look at business formation, expenses, travelling for work, and administrative tasks.

Once you've decided that limited company contracting is right for you, the first step is to form your limited company.

Company Formation

To form your limited company, you will need to come up with a unique company name and check that it isn't registered to anyone else.

From there, the rest of the registration process is relatively straight-forward – it usually takes less than two hours to complete.

Once you have your company's name registered, you will also require a company bank account to receive income and pay expenses. Since your company operates as its own legal entity, this must be a separate bank account from your personal one.

You may also need to register for VAT, depending on your annual turnover.

Company formation is something we do every day for contractors, so we can handle the process on your behalf from start to finish.

Your Responsibilities

When you set up your limited company for contracting, you'll be appointed as Company Director. This means you will have certain legal duties to undertake.

Firstly, you'll need to ensure that your company is properly administered. This means that all payments to the director and any shareholders must be declared, we will go into more detail below.

You will also need to ensure that you and your company are compliant with HMRC and Companies House requirements. As a minimum, accounts and tax returns must be produced and submitted. You may also need to calculate and submit VAT and PAYE returns, depending on the set-up of your company.

In the next section we explain more about what's involved, though we are always here to provide expert advice and support no matter which stage of the process you're at, helping to ensure you do things correctly.

Setting up Your Company

CHOOSE A NAME

This needs to be a unique name which no-one else has registered. We will find out if your chosen name is available.

REGISTERED ADDRESS

All limited companies must have a registered office address. It is possible to keep your home address private - please let us know if you would like to do this.

DIRECTORS & SHAREHOLDERS

All limited companies must have at least one director and one shareholder. It may be that you are both the director and the shareholder, and no-one else is involved.

DETERMINE YOUR SIC CODE

A SIC code (Standard Industry Code) will be required when registering your company. This broadly describes the trading activities of your company. We can talk you through this.

REGISTER YOUR COMPANY WITH HMRC

Once the company is formed, registering with HMRC is a relatively straightforward process. We will submit your CT61G document which officially notifies HMRC of your new company's details.

REGISTER FOR SELF-ASSESSMENT

This will ensure you comply with the rules that require almost all company directors to be registered to file an annual personal tax return.

ARRANGE NATIONAL INSURANCE

As a company director, you are classed as an employee as well as an employer. This means you must pay Employees' and Employers' National Insurance. We can help you work out what NI you need to pay and when.

REGISTER FOR VAT

You will need to become VAT registered if your turnover goes above a certain level (unless you work in a sector which doesn't operate VAT). You may also be able to use the flat rate VAT scheme which allows you to pay a fixed rate of VAT to HMRC and keep the difference between what you charge customers and what you pay to HMRC.

OPEN A BUSINESS BANK ACCOUNT

It's vital to keep your business and personal finances separate. The best way to do this is through a business bank account. We work with a number of banks so we can help you to set up an account.

SET UP BOOK-KEEPING ARRANGEMENTS

You'll need to keep on top of your finances - myJSA online is the perfect tool to help you do this, allowing you to manage expenses and invoices as well as analysing bank statements and forecasting tax.

HOLD YOUR FIRST BOARD MEETING

Even if you are the only director and the only shareholder, you will still need to record minutes of your initial board meeting to show that your company directors were properly appointed. We can help prepare the minutes for you in the correct format for safe-keeping.

As a limited company contractor, you will be able to claim tax relief on a range of business-related expenses. Any expense that isn't exclusively for business use is unlikely to be allowable for corporation (company) tax, so ensure you're only claiming for expenses.

Accountancy fees

This includes the costs associated with setting up your limited company, as well as ongoing accountancy costs.

Eyesight tests

You can claim for an eyesight test as long as you can prove it's necessary for the use of visual display equipment for your work.

Entertainment

You cannot claim tax relief on business entertainment or gifts, though you can claim for a Christmas party or staff event for employees. Employees may invite a partner but the expenditure must not exceed £150 inc VAT per person.

Equipment

You can claim tax relief on the cost of equipment you need to perform your work, including computers, phones, and furniture (such as desks and chairs). As long as personal need for these items is considered 'insignificant', HMRC will not treat it as Benefit in Kind (which has different tax implications).

Accommodation costs

You can claim tax relief on the cost of accommodation when you travel to a temporary business-related location, though this cost must be considered 'reasonable'.

Food and drink

You can claim for food and drink when out and about on business. HMRC's rules state that lunch can be claimed if you're out for 5 hours or more, and dinner if you're out for 10 hours or more. If you have to stay overnight for work purposes, you can claim for hotel rooms and meals.

Medical Insurance

The cost of medical insurance would be considered as a Benefit in Kind and subject to different tax rules. Your company can, however, claim tax relief on medical insurance for an employee working abroad and for an annual check-up.

Home office

You can claim up to £26 a month for using your home office if you can prove that you spend at least 25 hours per month working from home.

Phone & broadband

As long as your mobile phone and landline phone contracts are between your company and the service provider, you can claim tax relief. It gets a little more complicated if your company pays your entire personal phone bill, in which case the Benefit in Kind rules become applicable. You can claim for business calls made from your personal phone, though you need to be able to prove that the call was for business purposes.

The cost of home broadband is allowable if you work from home and your broadband contract is between your company and the service provider. We recommend setting up company phone and broadband contracts which operate separately from your personal lines.

Salaries & National Insurance

Salaries paid to employees or Directors are allowable expenses, as are National Insurance Contributions. Again though, these can be challenged if unreasonable – which would normally mean uncommercial.

Subscriptions

You can claim tax relief on membership of HMRC-approved professional bodies as long as they are relevant to your work. The list of which organisations are approved changes regularly, so check with us for the current list.

Stationary

Postage, printer ink, paper, and pens can all be claimed.

Training

Training courses which are applicable to your work are an allowable business expense.

There are a range of other claimable expenses, such as childcare, pensions, and charitable donations.

While this process might sound complicated, we've been doing it since 1989 and we know how to get it right - get in touch with us to have a free, no obligation discussion with one of our specialist contractor accounts to find out how JSA can help you manage your tax and expenses.

The cost of mileage, travel, and subsistence (i.e. meals and accommodation) can be claimed when you're a limited company contractor, but only while operating from a temporary workplace.

The 24-month rule

You can claim tax relief on the cost of travel to and from a temporary place of work. This covers train, bus, and taxi fares (within 'reasonable use'). The place of work ceases to be deemed 'temporary' once you know you will be working there for more than 24 months.

Use of personal vehicle

When using a personal vehicle to get to a temporary workplace, you can claim mileage at the rates shown in the table below. Your mileage should be recorded and reimbursed through your company accounts as this will help to reduce your overall Corporation Tax bill. If you drive a company car you can only claim the cost of fuel.

Vehicle	Rate per mile (on first 10,000 miles in tax year)	Rate per mile (on each mile over 10,000 miles)
Cars & vans	45p	25p
Motorbikes	24p	24p
Bicycle	20p	20p

It's best to keep on top of your finances by dedicating 20 minutes or so each week to record-keeping.

Weekly Tasks

As well as invoicing your clients/recruitment agency each week or month (depending on your pre-agreed frequency), you'll need to check your bank statements and keep accurate records of all allowable business expenses, plus you'll need to file all your receipts for safe-keeping.

Quarterly Tasks

Once a quarter you will need to submit a VAT return (if you are VAT registered), and because your company often acts as your employer, you will need to pay both Employers' National Insurance (also known as Class 1 NI) and Employee National Insurance (also known as Class 4 NI) and PAYE, if your pay level requires it. All of these amounts are paid to HMRC, once calculated based on your chosen salary level.

Annual Tasks

As a Company Director you will also need to submit an Annual Report to Companies House as well as year-end accounts to HMRC. Again, this is not a difficult process, especially if you've kept on top of your finances throughout the year.

Our expert accountants - here to help

While all of this may sound like a lot to maintain, when we act as your accountant, we will send you reminders so that you never miss a payment (which can incur a financial penalty). You will be set up with your own dedicated, expert accountant, who will be available with advice and support wherever you need it, to ensure you succeed as a contractor without facing compliance issues. We can prepare all of the required submissions on your behalf, ensuring accuracy, compliance, and complete peace of mind.

Our simple online accounting tool

As soon as you're registered, you can access our fantastic online accounting software provided by FreeAgent. This has all the features you need to keep your small business accounts on the right track.



VAT

Review automatically generated VAT returns and file with a single click.

Corporation Tax

Forecast your Corporation Tax bill ahead of time to avoid any nasty surprises.

Dashboard

Monitor cash flow at a glance and see when your tax bills are due.

Banking

Connect FreeAgent to your bank accounts to automatically import transactions.

Estimates and Invoices

Send and track professionally designed estimates and invoices.

Expenses

Never lose a receipt – simply snap a photo with your phone and upload.

Time Tracking

Record all your time with the in-built stopwatch or smart timesheets.

Overview

A bird's eye view of the performance of your income, expenses, and profitability.

Online access to your accounts means you can access information wherever and whenever you want.

Paying Yourself

When you own a limited company, the right way to pay yourself will depend on your individual circumstances. Our expert contractor accountants will provide the advice and support you need to work out what will suit you best, so you can operate with complete flexibility.

Contracting through your own limited company is usually the most tax efficient way to work, leaving you with the highest level of take-home pay in comparison to other working options.

Your business functions as a separate legal entity with its own finances. So, withdrawing income must be done either through dividends, if you're the owner, or a salary, if you're an employee.

Most limited company contractors pay themselves through a mixture of salary and dividends, acting as both an employee and owner of the company.

Usually, you would choose to take an amount fairly close to the Personal Allowance as a salary, claim any expenses due to you that you paid on the company's behalf, and receive the rest of your income through dividends.

This is a tax-efficient way to take income because dividends are taken from company profits, and usually taxed at a lower rate than salary payments. In addition, dividends are not subject to National Insurance.

Another benefit is that you can choose when you take some of your payments (within limits). This allows you to plan ahead to maximise the use of your annual allowances.

Tax relief on expenses

Remember: as a limited company contractor, you can claim tax relief on a range of allowable business expenses, which reduces your company's profits and therefore the amount of Corporation Tax you have to pay.

Most limited company contractors will take dividends, but there are rules about how you do this.

You can only take a dividend from the profit which remains after you have paid Corporation Tax. Plus, your dividends are subject to Dividend Tax, though there is a tax-free threshold.

If paying yourself through Personal Allowance and dividends is going to leave you within insufficient funds for your living expenses, you may need to consider taking a higher salary and lower dividend. While this would be less tax efficient, it would allow you to take money out of the business in excess of the taxed profits available.

This means you can pay yourself based on future expected earnings (e.g. payments you expect to receive from clients), unlike a dividend, which can only be paid once the income is due to the company and Corporation Tax has been allowed for in the accounts. In addition, of course, to pay out the salary, you'll need the cashflow available to do this.

How often you take dividends is up to you. Some people take them monthly, others quarterly.

While this process might sound confusing, we offer a free contractor calculator to help you determine your take home pay. Visit our website to calculate what you could earn after taxes have been paid. Alternatively, give us a call and one of our expert accountants will be happy to advise you on your pay illustration.

When considering contracting through your own limited company, it's important to seek specialist accountancy advice to check that this is an appropriate route for you.

At JSA, our knowledge of limited company taxation and compliance is second-to-none. We have been providing clear, expert, and compliant services to limited companies for over 30 years, changing and developing with the legislation.

If you're new to contracting, we'll help you set up your limited company and arrange your financial affairs in a tax-efficient and compliant manner.

Advice and guidance before you start

So that you can make an informed decision about whether limited company contracting is right for you.

Company formation

Everything you need to get your business registered and ready to trade.

Ongoing service

All the accountancy support you need to run your business and work tax-efficiently.

Our services include:

- Quick and easy company formation
- Year-end accounts
- Dividend administration
- Personal taxation
- Advice on all aspects of tax planning
- Quarterly review by phone
- Quick and simple IR35 assessments
- Advice and support from IR35 industry experts
- Fixed-fee plan with no surprise costs
- Corporation tax calculations
- Payroll
- VAT registration & returns
- We'll deal with HMRC on your behalf
- Available whenever you need us
- Your own dedicated, expert accountant
- Free online accounting system by FreeAgent
- FCSA and IPSE accredited accounting service
- Making Tax Digital compliant service



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