

Duport says number of contractor company formations is "dramatic"

The demand for [limited companies](#) by contractors has increased dramatically since last December when the Treasury began its attack on [managed service companies](#). The attack which effectively removes the tax advantages from working with a managed service company, and which places liability for their tax debts on those who work with them, is clearly driving contractors to open limited companies of their own.

By [setting up a limited company](#), a contractor can - under proper circumstances - conserve their right to take income as [dividends](#) instead of salary, as well as the right to deduct a broader range of [expenses](#).

Research Shows Surge in New Limited Companies

"We have research from Company House that shows that the number of limited companies being opened has surged in the past two months. It has jumped from the usual seven-to-eight thousand to about fifteen thousand," says Rebecca Dawes of [Duport](#), a company formation specialist based in Bristol.

Nor should this be surprising as the administration of a limited company is not excessively complex, as Dawes points out, particularly if a good accountant who handles the PAYE services and tax deductions is employed.

Serious Attractions

"It is important for contractors to take good professional advice before deciding what form their businesses should take," Dawes points out. "But clearly with the current legislation forming a limited company has serious attractions."

“ The number of limited companies being opened has surged in the past two months. ”

Rebecca Dawes-Duport

Manage It Yourself

Under the current legislation, it is most important that you manage the limited company yourself. However, [managing a limited company](#) does not differ essentially from running a business just as contractors do in general. It should be clear that the decisions about where you work and how you work are made by you, and not by a client. In this way you avoid being caught by [IR35](#) or by having the Revenue consider your company as a managed service company. There is nothing wrong with outsourcing accounting and other service functions though, and a contractor should take advantage of the means offered by these professionals.

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In basic terms the limited liability company allows commerce to flourish by enabling credit to be extended with minimum risk to all parties and is an important factor in the trading success of the United Kingdom. In a Limited Company, the owners (shareholders) are not personally liable for the debts of their business or any claims made against the company.

This legal limitation, called "limited liability" is created through registration at Companies House. The process is known as Incorporation. It is obvious why the majority of small business owners are so attracted by Limited Liability. Almost every business will accumulate debts that create the risk of being sued.

Avoiding danger

Without limiting your personal liability, every business owner would be completely legally responsible for the debts. Your personal assets would therefore be at risk. With limited liability, personal assets can remain in tact, even if the business fails under a burden of debt. A UK private limited company is able to distributed profits to its shareholders by way of a dividend.

More Information: [Company Formation](#)

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