

How contractors should run limited companies

So, now you have your own [limited company](#). You will enjoy considerable financial advantages, but there are also responsibilities incurred. Just remember: you can handle it, because dealing with the red tape and the bookkeeping gives you financial independence.

A Company is a 'Person'

What is a company from a legal perspective? It is what is called a 'moral' person, as opposed to 'physical' persons which are people like you and me.

Being a 'moral' person means that the company can do all the things that people do: borrow money, spend money, contract for services, pay tax, etc. Your personal responsibility to the company is limited--which is why they call them limited companies. But you are required by law to manage your company legally and responsibly. You can't just do anything with your company and expect to walk away from it.

Contracting With Your Company

There are two main purposes for your company: the first is to [sign contracts with agents](#) or third parties, The second is to handle the income from your work in the most flexible way.

When you contract with other companies, they need to be able to pay you. So you will need to [set up a bank account for your company](#); you will not be able to receive income from your contracting in your own name any longer (see '[Why Contractors cannot trade as sole traders](#)').

There is not too much difference between corporate accounts at banks; talk to a few different ones to see where you feel the most comfortable. Banks will be reluctant to provide credit for your new company, and so you are best advised not to ask for it. The [British Bankers Association](#) recommends that you start with a simple checking account, and then as you build up proof of regular income, you can try to expand into other useful products.

Invoicing And VAT

You've probably already figured out that you need to provide your agent with [signed timesheets](#) from the client which you use with your own invoices when you want to get paid. You [create an invoice](#) in the name of the company, and you provide payment information on the invoice.

If your company earns more than £70,000 per year (Tax year 2010/2011), you will need to assess for value-added tax ([VAT](#)). That means that on each invoice you send out, you add an additional charge of 17.5% which you collect and then pay to the Government. But you obtain a significant financial advantage here, because all the VAT your company spends you can have refunded. To understand how to register and to administer VAT, please see our article '[A guide to VAT for contractors](#)'.

Handling Expenses

You need to keep receipts from [contracting expenses](#) if you want to deduct the money from your taxes, as well as to justify your VAT outlay. Original receipts are required, and the receipts should clearly indicate how much VAT is included in the expenditure. If the receipt doesn't, ask for one that does when you buy things.

If you've personally paid for your company expenses then take cash from your company account to cover the amounts in the receipts. You can save time with all this by getting a debit card from your bank to use for expenses, but don't use it for your personal purchases!

Keeping the Books

At the end of every fiscal year, you are required to send the Revenue a copy of your [company accounts for the year end](#), together with a completed [corporation tax](#) return. Companies House also requires your accounts once each year. Your accountant will prepare these accounts for you, and you then check and sign them before they are sent.

This means that you have to keep them in order. You should probably use an accountant to help you do this, but you need to keep your own records which at the very least the accountant will require in order to produce your books. Some accountants will provide you with software, or ask you to obtain it. Others will simply ask you to keep records in one form or another from which they will work.

Have Your Say...

“ Setting it up was time consuming but now it is no bother at all. ”

Dave - London

[Send us your comments](#)

“ Start with a simple checking account for your new company and then build from there ”

British Banking Association

You can save time and money by working with an accountant who uses a standard software package like Quickbooks. You will find the record keeping process simpler, and you will only have to email the accountant to provide what is needed to produce the books.

Do remember that you need to keep all records in case of [HMRC inspections](#) -- and just keep everything, because you never know what you may need again -- for five years.

Calculate Salary and Dividends

Various forms are needed for the payment of salary and dividends -- each of which you will probably want to take! Your accountant can handle these, or you can do it yourself if you prefer -- we recommend strongly working with an accountant to make sure you get it right. But if you really want to be self-sufficient, use the [online service](#) on the Revenue's website. There is no mystery about salary and dividends: you want to take a small amount of salary, which is highly taxed, but enough to pay your National Insurance requirements. There is no legal obligation to take salary, but you save some trouble by taking a small one.

As for [dividend calculation](#), please see our article on this subject.

The Red Tape

"When you incorporate, you will file a Memorandum of Association with Companies House. This is an important document and one you should consider carefully," says company formation specialist [Duport](#). "This will describe how you run your company."

Your company is registered with Companies House, a government-run listing service which shows that your company is a legitimate one. Each company on Companies House has a number and when you incorporated, you should have received one.

The good news is that you can handle almost all the administration related to Companies House online. It is faster, and it will cost you 15 pounds per year to do it. When your company is incorporated, you should receive instructions for this from either Companies House or from whoever handles your incorporation. Do see that you get it; it saves a huge amount of time.

This red tape includes an annual return, which simply gives the basics about who you are, what you do, who your shareholders are, and where you are based. If shareholders or your location changes, you will need to inform companies house via the online access.

That's most of what you need to know about running your own company. It's not rocket science, and you do much more difficult things in your working life. But don't neglect the red tape, or it will come back and bite you...someplace...

“ The Memorandum of Association is an important document which determines how you run your company ”

Duport

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Do you find it hard to run your own company?

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Related Guides:

- [Setting up a limited company for contracting](#)
- [Choosing an Accountant for Your Limited Company](#)
- [A Contractors Legal Obligations as a Company Director](#)
- [Dividends – Calculation, Payment And Taxation](#)
- [Contractors Annual Company Accounts - Explained](#)
- [Moving from a Limited Company to an Umbrella: Reasons and Practicalities.](#)

Related Calculators:

- [Limited Company Calculator](#)
- [Dividend Tax Calculator](#)
- [Corporation Tax Calculator](#)
- [PAYE/NI Net Salary Tax Calculator](#)
- [Contractor Calculator](#)

Related Internet Links:

- [British Bankers Association](#)
- [Duport - Company Formation](#)



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