

FACTSHEET 14

Is a Limited Company Format Favourable ?

Many existing sole trader and partnership businesses will , at some stage , consider a move to limited company status . Many factors come into play but at this early stage you should be aware of the following key points :

Benefits of Limited Company Status

- A limited company has limited liability . After a shareholder has paid for their shares they have no further liability to the company or its creditors. Always remember though that in regard to bank borrowing personal guarantees or other forms of security are often requested by the bank.
- Since the 1 April 2002 limited companies have enjoyed a tax rate of 19 per cent on profits below £300,000 whereas sole traders and partners could be paying higher rate tax of 40 per cent
- Lending bodies will generally treat limited companies more favourably than sole trader businesses or partnerships
- With a limited company opportunities exist for company pension schemes and employee share schemes .

Downside of Limited Company Status

- Certain administration costs are required to form a limited company . However , these would rarely be greater than £300 .
- If the limited company's annual turnover is greater than £1.0 million then there is a requirement to have the annual accounts 'audited' . This is a more thorough form of accounts preparation and inevitably a more costly one in terms of accountants fees .
- Every limited company must file its annual accounts at Companies House where they can be viewed by any member of the public . However , for companies with a turnover of less than £2.8 million the form of accounts to be filed is heavily abbreviated and will not reveal your turnover , margins or trading profit .
- Directors and shareholders drawings must either be taken as salary or dividends . Salary will attract Paye and National Insurance Contributions and high levels of dividend may attract additional

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personal tax . However you should be aware that there are opportunities to balance salary and dividend levels in such a way to minimise personal tax .

- The statutory duties of limited company directors are more onerous than for sole traders or partnerships and are often backed up by the prospect of legal proceedings , eg failure to submit annual accounts within the permitted statutory time limit .

For further advice and before taking any action please give me a call .

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