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ICAEW Business Advice Service

Prepare for success

The limited company and tax

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When setting up a new business, you have to decide what format your business will take. If you decide to form your business as a limited company, there are some requirements you will need to follow to notify the right people (Companies House). We explain below why you need to notify Companies House and the tax implications for running your business as a limited company.

Companies House informs HMRC of a new company

If you are going to trade as a sole trader or partnership you don't have to register with Companies House. However, if you intend to form a limited company you must register with Companies House. The main offices are in Cardiff and London with several regional centres across the UK.

Companies House informs HM Revenue and Customs (HMRC) when any limited company is formed and registered with them. But if you use the Companies House Web Incorporation Service and your company is 'active' at the time you incorporate it ie, it has started trading or receiving income, you can choose to supply the statutory information to HMRC at the same time that your business becomes active.

HMRC uses the information it receives from Companies House to set up a computer record for your company and allocates it a reference number known as a Unique Taxpayer Reference (UTR). They then send form CT41G (Corporation Tax – Information for New Companies) to your company's registered office. This form includes your company's UTR so you need it to keep it safe as you will need it whenever you contact HMRC. It also tells you what you need to do once your company is active and suggests other tax implications your company may need to consider.

It's important that you read form CT41G carefully and promptly take any action that's needed.

When your company becomes active (starts trading)

You must tell HMRC when your company becomes active, if you have not already done so. This must be done within three months of starting business activity. The easiest way to do this is online – using either the joint registration facility contained within the Companies House Web Incorporation Service, or HMRC's online registration service.

Getting your agent authorised to receive the company's tax forms

Form 64-8 authorises HMRC to communicate with an accountant, tax agent or adviser acting on your behalf. The form covers authorisation for individual tax affairs (partnerships, trusts, tax credits and individuals under PAYE) and business taxes (VAT, PAYE for employers and corporation tax). Alternatively, your tax agent or adviser can use HMRC's online authorisation service, which is quick and secure.

More information: gov.uk/guidance/applying-for-client-authorisation-using-hmrc-online-services

Corporation tax return

Small companies with straightforward tax affairs can use the short return form – CT600 (Short) (2008) Version 2 – to deliver their company tax return.

You can use HMRC's online services to:

- file a company tax return to HMRC over the internet using HMRC's free online filing software or other commercially-available software;
- file your statutory, abbreviated or dormant accounts to Companies House over the internet;
- change an accounting period;
- amend a company tax return that has already been submitted to HMRC;
- view your corporation tax liabilities and payments;
- change the company's details, for example the contact address; and
- add, change or remove your accountant or authorised agent.

Commercial software may be better suited to your company's circumstances as it generally offers greater flexibility and choice of company tax return supplementary pages. If you use commercial software to file a return it must meet the HMRC requirement to produce accounts and computations in iXBRL format.

The company accounting period for corporation tax

A corporation tax accounting period is different from similar terms used by other HMRC tax areas (such as VAT accounting periods) or other government agencies (such as Companies House accounting reference periods).

A company's corporation tax accounting period is normally 12 months' long and normally matches the company's 12-month financial year. A company's financial year begins and ends with the dates covered by its company's annual report and accounts (financial accounts) that are filed at Companies House. These accounts are sometimes called statutory accounts or audited accounts.

In some instances your corporation tax accounting period won't be the same as the company's financial year if, for example:

- the accounts cover a period of more than 12 months – such as if a newly-formed company is preparing its first accounts to cover a period of more than 12 months, or an existing company changes its financial year end; or
- the company has been dormant and once again starts to carry on business activity – here the corporation tax accounting period may start on a different day from the start of the financial year.

Preparing to file your company tax return

If your company does not have an accountant, agent or tax adviser, you will need to plan how to submit online company tax returns in plenty of time before any filing deadlines. Apart from the requirement for good business records, your company will also have to be enrolled for the Corporation Tax Online service and choose the right software for its needs. If you employ an agent, they can file the return on behalf of the company and make sure that the accounts and computations are properly prepared in the correct format.

Working out how much corporation tax to pay

The amount of corporation tax payable in an accounting period starts with the pre-tax profit (or loss) figure shown in the company's accounts and is adjusted to arrive at the taxable profits or 'profits chargeable to corporation tax'. This is achieved by completing The Company Tax Return form CT600 and the software may do some of these calculations for you.

Starting with the company's pre-tax profit figure in the accounts, the following adjustments are made:

1. add back any depreciation charge from your company accounts; and
2. deduct any capital allowances and add any balancing charges.

Details of the capital allowances and balancing charges are calculated separately. Then any trading losses brought forward from an earlier accounting period are included. The resulting figure is the trading profits.

Capital allowances enable the company to deduct ('write off') the cost of a company's capital assets such as machinery, computers, equipment or vehicles against its taxable profits for corporation tax. Balancing charges may arise when the company sells, gives away or stops using a capital item in its business. Balancing charges increase the company's taxable profits.

>> Corporation tax

From 2015/16 all companies pay corporation tax at 20%.

More information
Companies House:
companieshouse.gov.uk

Corporation tax:
gov.uk/business-tax/corporation-tax

If you need further help with running your business as a limited company, a free initial discussion with an ICAEW Chartered Accountant is a good place to start. Visit businessadviceservice.com

Prepare for business, prepare for success.

ICAEW Business Advice Service

The ICAEW Business Advice Service (BAS) provides professional advice for start-ups and owner-run businesses.

As well as practical help online in the form of white papers, short PDFs and blog articles, we enable businesses to receive an initial consultation at no charge from an ICAEW Chartered Accountant.

ICAEW is a world leading professional membership organisation that promotes, develops and supports over 144,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

ICAEW Chartered Accountants are the biggest source of business advice, reaching over 1.5m businesses from more than 20,000 offices across the UK.

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