

Setting up a Ltd. Company

What is a “Limited Company”?

Aside from using an umbrella company, a lot of contractors set up as limited companies.

The term 'limited' derives from the fact that the company's finances are distinct from the personal finances of their owners (unlike the sole trader arrangement).

It is unusual for contractors to set up as sole traders because many agencies will not deal with contractors working as such due to IR35 implications.

Shareholders in limited liability companies are not responsible for company debts, although if necessary, directors may be required to guarantee loans or credit granted to the company.

Limited Companies - legal requirements

The higher level requirements for limited liability companies are as follows:

- The company must be registered at Companies House.
- Annual accounts must be filed at Companies House.
- An Annual Return (Form AR01) must be completed each year to update Companies House with basic details relating to the company. This must be completed within 28 days of your company 'made up date' each year. You can file this online for a small fee.
- HMRC must be informed if the company has any profits or taxable income in a company year.
- The company must complete an annual HMRC corporation tax return and pay the due taxes within nine months and one day of the company year-end each year.
- Anyone employed by the company must pay income tax and national insurance on their income.
- A limited company no longer has to have a company secretary following changes contained in Companies Act 2006.

Setting up a Limited Company - incorporation process

Companies House is responsible for company registration in Great Britain. It also has a key role in providing information about British companies.

The following documents must be completed by you (or quite commonly, an intermediary) and returned to Companies House to complete the incorporation process:

- Memorandum of Association - includes company name, location and business type.
- Articles of Association - outlines directors' powers, shareholder rights etc.
- Form IN01 - contains details of the company's registered office, the details of the consenting Secretary and Director(s), details of the subscribers and details of the share capital (if applicable). This form replaced the old Form 10 and Form 12 on 1st Oct 2009.

These documents are often prepared by a company formation agent, or your accountant. There is no legal requirement to use a third party, but it's typically a hassle-free process compared to doing it yourself.

The [Companies House website](#) provides detailed guidance and FAQs which describe all aspects and requirements of the registration process, including what you can call your limited company and the documentation required to complete the registration process.

Types of Limited Company

Private Limited Companies, the most typical set-up for contractors, cannot offer shares to the public, but may have any number of shareholders. Each limited company must have at least one director to make management decisions, although the company secretary is now an optional appointment.

PLCs (public limited companies) differ from Private Limited Companies in that they are allowed to offer shares to the public to raise funds (with shares issued to a minimum value of £50,000). Each PLC must have at least two directors to make management decisions.

For obvious reasons, contractors are highly unlikely to need to set up a PLC.