

Should You Incorporate Your Business?

Recent tax changes have made it even more important to consider whether it is best to trade as a limited company.

We are regularly asked, 'should I incorporate my business?'

The reality is that there is no easy answer. Each situation has to be judged individually. As well as the obvious issues of tax and national insurance contributions (NICs), there are many other factors, such as:

- The owners lifestyle
- Growth rates of the business
- Commercial risk
- Administration
- Your personal preferences
- Pensions and retirement planning

The advantages of incorporation are that:

Incorporation usually provides limited liability. If a shareholder has paid fully for his or her shares, he or she cannot normally be required to invest any more in the company, it has its own legal status – it can own property, sue and be sued and there may be tax advantages, depending on circumstances.

When we review whether it is best to be a Limited Company, we consider these key issues:

1. Potential Tax position
2. Motor Expenses/Benefits
3. Minimum Wage
4. N I contributions
5. Dividends
6. Pension contributions and Life Assurance
7. Retirement Relief/Taper relief
8. Obtaining mortgages etc
9. Administration
10. Other trading methods
11. IR35
12. Property/Business Property relief
13. Shareholdings
14. Long term plans /Exit strategy
15. Health Warnings
16. Accounting Issues
17. Stamp Duty



CHARTERED ACCOUNTANTS

The Right Balance

We also calculate any potential tax position:

	Scenario 1 Present Salary and Dividend	Scenario 2 Alternative Salary and Dividend	
2			
3			
4			
5	Profits	30,000.00	30,000.00
6			
7	Less Salary	(20,000.00)	(10,000.00)
8			
9	Liabe to Corporation Tax	10,000.00	20,000.00
10			
11	Less Corporation Tax Charge	(1,900.00)	(3,800.00)
12			
13	Profit after Tax but before Dividends	8,100.00	16,200.00
14			
15	Less Dividends	(8,100.00)	(16,200.00)
16			
17	Remaining in Company	-	-
18			
19			
20	Salary	20,000.00	10,000.00
21			
22	Dividends	8,100.00	16,200.00
23			
24	Less Income Tax & NI	(3,321.62)	(1,029.12)
25			
26	Total Received	24,778.38	25,170.88

Based on this in-depth discussion you can arrive at a sensible decision as to whether you should incorporate.

Call us for an appointment.

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