# From concept to corporation:

## A step-by-step guide to company formation

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Starting a company is a massive step on your business journey. This guide outlines the key aspects of company formation, helping you confidently navigate the process.

We'll cover:

- selecting and registering your company name
- registering with Companies House
- setting up a business bank account
- key legal considerations
- roles of directors and shareholders.

By the end of this guide, you'll have a clear understanding of the essential steps needed to establish your company.

## Choosing the right business structure

The foundation of your business journey begins with selecting the appropriate business structure.

This is pivotal as it will influence every aspect of your operations, from your legal responsibilities and tax obligations to how you can raise funds and grow your business.

The most common business structures are:

1. sole Trader
2. partnership
3. limited company
4. limited liability partnership (LLP).

Most businesses are set up as limited companies, but let's explore each option in detail.

# Sole trader

As a sole trader, you're self-employed and run your business as an individual. This is the simplest business structure and is popular among freelancers, consultants and small business owners.

## The pros

- **Easy and inexpensive to set up:** You can start trading almost immediately with minimal paperwork.
- **Full control over the business:** All decisions are yours to make.
- **Keep all profits after tax:** You don't have to share profits with anyone else.
- **Simple accounting and tax requirements:** You only need to file a self assessment tax return each year.
- **Privacy:** Your business's financial information isn't publicly available.

## The cons

- **Unlimited personal liability for business debts:** Your personal assets could be at risk if the business fails.
- **Can be harder to raise finance:** Banks and investors often prefer to deal with limited companies.
- **May appear less professional to some clients:** Some larger businesses prefer to work with limited companies.
- **Potentially higher tax burden as the business grows:** As a sole trader, all profits are taxed as personal income.

**Example:** Sarah is a freelance graphic designer. She chooses to operate as a sole trader because she values simplicity and wants to keep all her profits. However, she's aware that if a client sues her for breach of contract, her personal assets could be at risk.

# Partnership

A partnership is similar to being a sole trader but involves two or more individuals sharing the responsibilities and profits of the business.

## The pros

- **Shared responsibility and complementary skills:** Partners can bring different expertise to the business.
- **Easy to set up:** Like sole traders, partnerships are relatively simple to establish.
- **Potential tax advantages:** Profits are shared among partners, which can be tax-efficient.
- **Flexibility in profit sharing:** Partners can agree on how profits (and losses) are distributed.

## The cons

- **Partners are jointly liable for business debts:** Each partner is responsible for the actions of the others.
- **Potential for disputes between partners:** Disagreements can disrupt the business.
- **Each partner is responsible for the other's decisions:** This can lead to complications if one partner makes poor choices.
- **Can be complex to value and dissolve:** If a partner wants to leave, it can be challenging to determine their share of the business.

**Example:** Tom and Emma start a marketing agency together. They choose a partnership because they have complementary skills – Tom excels at client relations, while Emma is a whiz at digital marketing. However, they create a detailed partnership agreement to prevent potential profit-sharing or decision-making disputes.

# Limited company

A limited company is a separate legal entity from its owners (shareholders). This separation provides personal asset protection for the shareholders.

## The pros

- **Limited liability protection for shareholders:** Personal assets are generally protected if the company fails.
- **Potential tax efficiencies:** Corporation tax rates can be lower than income tax rates for higher earners.
- **Enhanced credibility with clients and suppliers:** Many businesses prefer to deal with limited companies.
- **Easier to raise finance:** Banks and investors often view limited companies more favourably.
- **Ownership can be easily transferred:** Shares can be sold or transferred to new owners.

## The cons

- **More complex to set up and run:** There's more paperwork and regulatory requirements.
- **Increased regulatory and reporting requirements:** Annual accounts and confirmation statements must be filed with Companies House.
- **Less privacy:** Company information is publicly available at Companies House.
- **Potential for double taxation on profits and dividends:** Profits are taxed at the corporate level, and dividends are taxed when distributed to shareholders.

**Example:** John runs a successful IT consultancy. He decides to incorporate as a limited company because he's winning larger contracts and wants to protect his personal assets. He also finds that being a limited company makes it easier to secure a business loan for expansion.

# Limited liability partnership

A limited liability partnership (LLP) combines elements of a traditional partnership with the limited liability of a company.

## The pros

- **Limited liability for partners:** Personal assets are protected, similar to a limited company.
- **Flexible internal structure:** Partners can decide how to run the business.
- **Tax transparency:** Partners are taxed individually on their share of the profits.
- **Suitable for professional service firms:** Many law firms and accountancy practices operate as LLPs.

## The cons

- **More complex to set up than a traditional partnership:** There are more legal requirements.
- **Some regulatory requirements similar to limited companies:** Annual accounts must be filed with Companies House.
- **Not suitable for all types of businesses:** LLPs are primarily designed for businesses where all members take an active part in running the business.
- **Potential difficulties in raising external capital:** Unlike limited companies, LLPs can’t issue shares to investors.

**Example:** A group of solicitors decides to form an LLP for their law practice. They choose this structure because it offers them personal asset protection while allowing them to maintain the partnership model that works well for their profession.

## How to choose

When choosing your business structure, there are various factors to consider.

- **The nature and scale of your business:** A small local shop might be fine as a sole trader, while a tech startup with plans for rapid growth might benefit from being a limited company.
- **Your growth plans:** A limited company structure might be more suitable if you plan to expand quickly or seek external investment.
- **Your attitude to risk:** If you're risk-averse, the limited liability offered by a limited company or LLP might be appealing.
- **Your need for external investment:** Limited companies have more options for raising capital.
- **The level of control you want to maintain:** Sole traders have complete control, while in other structures, control is shared.
- **Tax implications:** Different structures can have significant impacts on your tax liability.

Remember, you can change your business structure as your company grows and evolves. Many businesses start as sole traders or partnerships and later incorporate as they expand.

At **EV Accountants**, we can help you analyse these factors and choose the structure that best suits your needs and goals.

## Selecting and registering your company name

Your company is the cornerstone of your brand identity and often the first point of contact between your business and potential customers.

Choosing the right one is often challenging if you don't have one in mind already.

## The art and science of choosing your name

When selecting a company name, consider the following factors.

1. **Relevance:** Your name should reflect your business activities or values. For example, Green Clean Services immediately suggests an eco-friendly cleaning company.

2. **Memorability:** It should be easy to remember and spell. Avoid complex or easily misspelt words.

3. **Uniqueness:** Stand out from competitors. Research your industry to ensure your name isn't too similar to existing businesses – especially competitors.

4. **Scalability:** Ensure it will still be suitable if your business expands. London Plumbing Services might limit you if you want to expand nationally.

5. **Domain availability:** Can you secure a matching web address? In today's digital age, having a matching domain name is fundamental for your online presence.

6. **Cultural sensitivity:** If you plan to operate internationally, ensure your name doesn't have negative connotations in other languages or cultures.

## Brainstorming techniques

To generate name ideas, try the following methods.

- **Word association:** Start with words related to your business and see where they lead you. For a coffee shop, you might start with "bean", "brew", "aroma" and so on.

- **Portmanteau (combined words):** Blend two words to create a new one. For example, Microsoft (microcomputer + software) or Instagram (instant + telegram).

- **Acronyms:** Use the initials of a longer name to create a snappy acronym. For instance, BBC (British Broadcasting Corporation).
- **Foreign words:** Consider words from other languages that relate to your business. Audi comes from the Latin “audi” meaning “listen”.
- **Metaphors:** Use metaphorical names that evoke the qualities of your business. “Amazon” suggests a vast, diverse marketplace like the Amazon rainforest.

Involve your team or trusted advisers in the brainstorming process for diverse perspectives. Sometimes, the perfect name emerges from collaborative efforts.

## Legal considerations and restrictions

Your chosen name must comply with certain rules including the following.

- It must be unique and not too similar to existing company names. For example, you couldn’t register “Tesko” as it’s too similar to “Tesco”.
- It can’t be offensive. Names containing swear words or offensive language will be rejected.
- It can’t suggest a connection with government or local authorities without permission. For instance, you couldn’t use “Official” or “Government” in your name without approval.
- It can’t include sensitive words or expressions without permission. Words like “Royal”, “Bank”, “Institute” or ‘Chartered’ require special permission to use.

Additionally, your company name can’t be the same as an existing trademark. For example, you couldn’t name your technology company “Apple Computers” as it infringes on Apple Inc’s trademark.

## Checking availability

Before finalising your name, you'll need to check its availability.

1. **Search the Companies House register:** This will show if your exact name or something very similar is already registered.
2. **Check trademark databases:** Use the **Intellectual Property Office**'s trademark search to ensure you're not infringing on any existing trademarks.
3. **Search for domain names and social media handles:** Check if the corresponding .com, .co.uk and other relevant domain extensions are available. Also, check major social media platforms for username availability.
4. **Conduct a general internet search:** This can reveal if your chosen name is being used by unregistered businesses or has any negative associations.

## The registration process

When you register your company with Companies House, your company name will automatically be registered. However, this doesn't provide trademark protection.

Consider registering your name as a trademark for additional legal protection. Trademark registration gives you exclusive rights to use your name for your goods or services and can prevent others from using a similar name in your industry.

## Choosing a trading name

Your registered company name doesn't have to be the name you trade under. Many businesses use a different trading name for their day-to-day operations. For example, the company John Smith Plumbing Services Ltd might trade as Smith's Plumbers.

If you choose to use a trading name, ensure it doesn't infringe on any existing trademarks and complies with the same rules as registered company names. Remember, while you can have multiple trading names, you can only have one registered company name.

Using a trading name can offer flexibility, allowing you to operate different brands or services under one company.

## Registering with Companies House

Registering with Companies House brings your company into existence as a legal entity.

Let's explore the details of Companies House, why registration is important, and how to navigate the process successfully.

### What is Companies House?

Companies House is the UK's registrar of companies. Its primary functions include:

1. incorporating and dissolving limited companies
2. examining and storing company information
3. making this information available to the public.

Every limited company in the UK must be registered with **Companies House**. This registration gives the company its separate legal identity.

## Preparing for registration

Before you begin the registration process, you'll need to have the following information and documents ready.

1. **Company name:** Your chosen and checked company name.
2. **Registered office address:** This must be a physical address in the UK where official communications can be sent. It doesn't have to be where you conduct your business, but it must be an address where documents can be legally served.

3. **Directors' details:** All company directors' names, addresses and other personal information. You'll need at least one director, and they must be at least 16 years old.

4. **Shareholders' details:** Information about the company's shareholders (who can also be directors). For a private company, you need at least one shareholder.

5. **Share capital:** Details of the number and value of shares and the rights attached to them. You'll need to decide on your share structure – for example, you might have 100 shares valued at £1 each.

6. **SIC code:** The Standard Industrial Classification code that describes your company's nature of business. You can find a list of SIC codes on the Companies House website.

7. **Memorandum of Association:** A legal statement signed by all initial shareholders agreeing to form the company. This is usually created as part of the online registration process.

8. **Articles of Association:** The rules about running the company agreed by the shareholders, directors and company secretary. You can use standard model articles or create custom ones.

## After registration

Most people register online. Once your registration is complete, Companies House will send you the following.

1. **A certificate of incorporation:** This confirms the company's existence and includes the company number and date of formation. Keep this safe as it's an important legal document.

2. **Your company number:** You'll need this for future filings and correspondence with Companies House and HMRC.

3. Information about filing your first confirmation statement (previously called an annual return) and your first set of accounts.

## Ongoing responsibilities

Registration is just the beginning of your relationship with Companies House. As a registered company, you'll have ongoing responsibilities, including the following.

1. **Filing annual accounts:** These must be prepared and submitted to Companies House each year. The deadline depends on your company's financial year end.
2. **Submitting a confirmation statement each year:** This confirms that the information Companies House holds about your company is correct.
3. **Reporting any changes to your company's details:** This includes changes to directors, registered office, share structure or people with significant control.
4. **Maintaining statutory registers:** These include registers of members, directors, secretaries and people with significant control.
5. **Filing your corporation tax return with HMRC:** This is separate from your Companies House filings.

## Setting up a business bank account

A dedicated business bank account is essential for managing your company's finances effectively. It's a legal requirement for limited companies and can offer numerous benefits for your business operations.

### Why you need a business bank account

1. **Legal requirement:** Limited companies are legally obliged to have a separate business bank account. This is because a limited company is a distinct legal entity from its owners.

2. **Financial clarity:** Separating business and personal finances makes tracking your company's financial health much easier. It also simplifies bookkeeping, tax preparation and financial reporting.
3. **Professionalism:** A business account enhances your credibility with clients, suppliers and potential investors. It presents a more professional image when receiving payments or issuing invoices.
4. **Tax efficiency:** A separate account makes it easier to identify business expenses, so you don't miss out on any tax deductions.
5. **Business credit:** A business account helps you build a credit history for your company – important when seeking loans or other financing in the future.
6. **Multiple users:** Business accounts often allow you to set up multiple users with different access levels, which is useful as your company grows.

# Understanding your tax obligations

As a newly formed company, you'll need to learn to comply with your tax obligations from the start. The tax system can be complex, but with the right knowledge and planning, you can ensure your business remains compliant and benefits from available tax efficiencies.

Let's explore the key taxes you need to consider.

## Corporation tax

All limited companies must pay corporation tax on their profits.

Corporation tax is due nine months and one day after your company's financial year end. You must file a company tax return (CT600), even if you make a loss or have no corporation tax to pay.

It's your responsibility to calculate, report and pay the correct amount of corporation tax.

### Value-added tax (VAT)

VAT is a tax on goods and services. Key considerations include the following.

- **Registration threshold:** You must register for VAT if your taxable turnover exceeds £90,000 in a 12-month period. You can register voluntarily if it's advantageous for your business.
- **Standard VAT rate:** 20%.
- **Filing:** Returns are usually filed quarterly.
- **Reclaiming VAT:** You can reclaim VAT on eligible business expenses.

## Pay as you earn (PAYE)

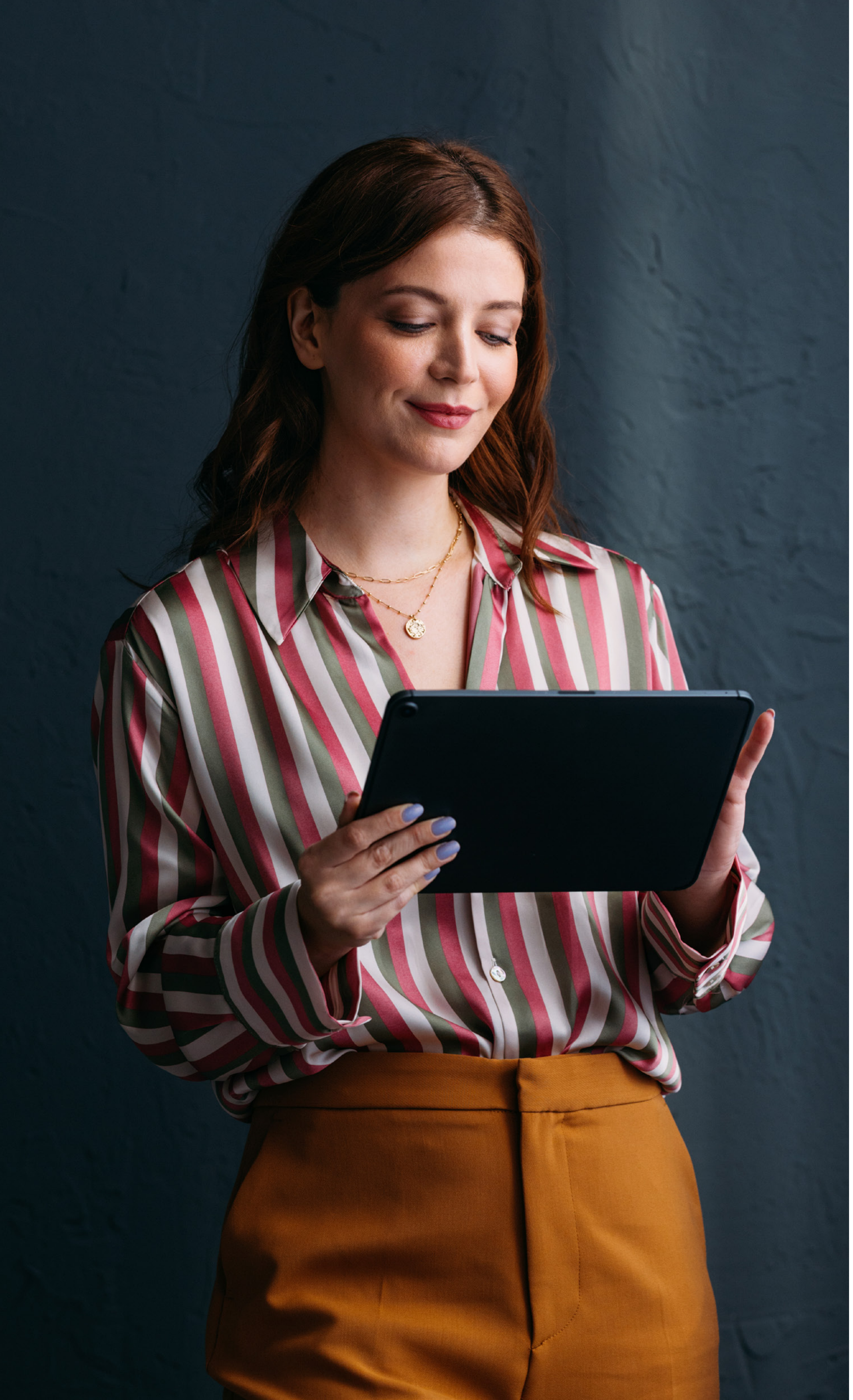
If you have employees (including directors), you'll need to operate PAYE. This system is used to collect income tax and national insurance contributions from employees.

### Key responsibilities

- Deduct income tax and national insurance from employee wages.
- Pay employer's national insurance contributions.
- Report payments and deductions to HMRC monthly or quarterly.

### Tips for managing PAYE

- Use payroll software to calculate deductions accurately.
- Ensure you're aware of the current tax and national insurance rates and thresholds.
- Don't forget to include taxable benefits in your PAYE calculations.





## Wrapping up

And there you have it – a comprehensive guide to getting your business off the ground.

Starting a business is an exciting journey, but tax and compliance, in particular, can be daunting. That's where we come in.

Whether you need help setting up efficient tax-tracking systems, ensuring timely payments or identifying tax-saving opportunities, the EV Accountants team supports you.

We're ready to assist if you have questions, need help with tax planning or want to optimise your financial systems.

Ready to take the next step? **Contact us today** to learn how we can support your business and help it thrive.

# Ready to find out more?

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