



SMALL BUSINESS **STARTUP**

Choosing Your Legal Structure – Limited Companies

Once you decide to start a business, you need to choose what type of legal structure the business will have. The most common types are sole traders, limited companies and business partnerships. The structure you choose will define your legal responsibilities, including paperwork and registration requirements, taxes and personal liability. The following is an overview of setting up a limited company.

What is a Limited Company?

A limited company is an organisation that is set up to run your business. It is considered a completely separate entity, and limits your personal liability for business finances, unlike a sole trader or business partnership. Limited companies have appointed directors, who are responsible for running the company, and shareholders, or members who own shares in the company. Directors have legal duties and responsibilities they must follow, including conducting business actions with a duty of care and acting in the company's best interest. Shareholders have liability based on the type of limited company formed.

Types of Limited Companies

There are several different types of limited companies, each with different liabilities for shareholders. The following are the most common types of limited companies.

- A private company 'limited by shares'—the shareholders are responsible for the company's financial liabilities, limited to the original value of the shares issued, but not paid for. For example, a company

Certificate of Incorporation

Once you register your limited company with Companies House, you will receive a 'Certificate of Incorporation', which confirms that the company legally exists and shows the company number and date of formation.

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issues 100 shares valued at £1 each and has two shareholders who own 50 shares each. Each shareholder has only paid for 25 of the 50 shares he or she owns when the company fails. They would lose the value of the 25 shares they already paid for, and would be liable for the additional 25 shares they each own, but have not paid for yet.

- A private company 'limited by guarantee'—the directors or shareholders financially back the organisation up to a specific amount if things go wrong.
- A private unlimited company—the directors or shareholders are liable for all debts if the business fails.
- A public limited company—this type of company has stocks that are traded publicly on a market, such as the London Stock Exchange.

How to Set Up a Private Limited Company

The majority of UK businesses that use the limited company business structure choose a private limited company. The following is an overview of how to set one up.

1. **Create a company name and address.**

To properly register your private limited company, you must first come up with a company name. All private limited companies in the United Kingdom must end their names with either 'Limited' or 'Ltd'. The name cannot be the same as any other name in the Companies House [index of names](#), contain offensive or sensitive words or expressions, or suggest a connection with the government or local authorities.

You must also have a registered address where official correspondence can be sent. This must be a physical address in the same country that the company is registered in.

2. **Have at least one director and one shareholder.**

Your company must have at least one director who is responsible for running the company. This can be you, someone you appoint or even another company (but at least one of the directors must be an individual). Directors must be over the age of 16 and not otherwise disqualified. The director has many legal responsibilities and duties, including making sure business decisions benefit the company and keeping records of business finances and taxes. Directors need to file a Self-Assessment tax return each year and also pay income tax and national insurance through the PAYE system if they get a salary. Directors can also be personally liable for company business liabilities,

and can be fined or prosecuted if they do not abide by the required duties and responsibilities.

The company must also have at least one shareholder. There is no maximum number, and directors can also be shareholders. Shareholders are the owners of the company and are entitled to certain rights, such as voting on changes to the company. When registering, you will need to provide details of the company's shares, including the number of shares the company has, their total value and the names and addresses of all shareholders.

3. Create articles of association.

You must create articles of association. The articles of association are rules that set out the duties and responsibilities of directors and shareholders when running the company. The articles can contain rules about how decisions that affect the company are made and the role of shareholders in those decisions. The majority of companies use a standard or 'model' policy, which can be found on the Companies House [website](#).

4. Register the company.

All limited companies must register with the Companies House. You will need all of the information in the above steps to complete registration. You can [register online](#) if your company is limited by shares and uses the model articles of association. Online registration takes 48 hours to process and costs £15. For all other limited companies, register by post with [Form IN01](#). Applications by post take about 8 to 10 days to process and cost £40.

5. Set up your corporation tax.

Within three months of starting your business, you are required to give HM Revenue & Customs (HMRC) information about your company in order to set up Corporation Tax. After you register or incorporate your company, the HMRC will send you a Unique Tax Payer Reference number within a few days. Along with this number, you must tell the HMRC the date you started business, your company name and registered number, your main address, the kind of business you do, the date you will submit your annual financial accounts and if you have taken over the business or are part of a group.

For more information on the different types of legal structures, contact **Crendon Insurance Brokers Ltd** today.

