

Limited companies – The routine issues

Introduction

If you have followed this series of articles on incorporation, which will be on the agenda in the next 12 months, I am sure by now you must be quite familiar with the concept of incorporating your dental practice, the associated advantages and disadvantages and the alternatives available in transferring existing business assets into the limited company.

In this article, I intend to introduce you the routine issues involved in managing your newly incorporated body and opportunities available for tax planning and saving on a routine basis.

Separate legal entity

One thing that you should always remember is a newly incorporated body has a separate legal identity in the eyes of law. Unlike a sole trader or partnership, there's a clear dividing line between personal affairs and company affairs. The best example is drawing money from business bank account. You will no longer be able to draw money from the business bank account for personal emergencies. However, still this can be done by way of "advances and loans to directors", which should be properly documented.

The concept of a "separate legal entity" does not suggest that in the event of a commercial dispute you go scot-free. As a director you are responsible for the activities of the company and obliged to fulfill the statutory requirements laid out by the Companies Act. The only difference is your liabilities are limited to the extent of your investment in the company. In other words, if the company fails commercially and is forced into liquidation, your liability towards settling the amounts due to third parties can never exceed your investment in the company. Therefore we suggest that tempting though it may be, you don't buy that timeshare in St. Lucia "on the company."

Routine issues

Most of the routine issues covered here stem from the statutory responsibilities of you as a director.

The Companies Act advocates that every company director has a personal responsibility to make sure that various statutory documents are submitted to the Registrar of Companies and the Inland Revenue as and when requested. Some of the important documents worth mentioning here are:

- Annual accounts

Within a maximum period of 10 months from the company's accounting year end date, directors should file the annual accounts at Companies House. Accounts should also be filed with the Inland Revenue together with corporation tax return during this period.

- Annual returns

A yearly return should be submitted to Companies House as requested by the Registrar of Companies. This is a form sent by Companies House that shows the information already recorded at Companies House. All you need to do is cross check the accuracy and amend where necessary.

- Notice of change of directors or secretaries or their particulars

Any changes should be notified to Companies House using the appropriate form to enable Companies House to update their records.

- Notice of change of registered office address

Any changes to the already registered office address should be brought to the notice of the Registrar of Companies.

Failure to submit the required documents on time is a criminal offence and can lead to financial penalties being imposed on the company. Directors can also be prosecuted for failure to do so.

Above are some of the important statutory obligations that you have as a director. As I have mentioned before, your accountant will attend to most of the above. But it's your responsibility to get them done on time, since your accountant will never get prosecuted for late submission of these documents. Also, scope of the accountant's duties will be determined by the agreement you have and needs to be reviewed should you wish to include the above.

Apart from being a director you can also act as the secretary of the company and every company should have a secretary on board. Though you can nominate one of the directors as company secretary, your accountant will be more than happy to act as secretary to the company and attend to the above.

This will no doubt increase your accountancy fees. Nevertheless it will take the hassle away from you.

Some of the secretarial duties are outlined below:

- Maintaining the following statutory registers
 - Register of share holders
 - Register of directors and secretaries
 - Register of directors' interests
- Ensure that statutory forms are filed on time using the correct forms prescribed by Companies House
- Convening annual general meetings of the share holders and meetings to pass special resolutions subject to the minimum notice periods to be served on members
- Providing copies of the annual accounts to all share holders
- Maintaining minutes of directors' meetings and general meetings

Further tax planning opportunities

A) On employment income and dividends

The relationship that you have with the company is twofold – as a shareholder and as an employee.

As the main or only shareholder of the company you have invested in the share capital of the company and in return you can look forward to a decent return, usually in the form of a dividend. At the same time, for the duties and responsibilities you undertake as an employee - including clinical duties - you'll be entitled for remuneration.

This provides you with further opportunities for tax reduction. Dividends are an attractive method of paying yourself as they attract a lower rate of tax. However, this would need to be administered correctly to ensure compliance with Companies Act rules.

Therefore, a carefully planned profit extraction strategy of a mixture of salary and dividends can reduce your personal income tax liability. I have written a more detailed article on this aspect and anybody reading this who wishes to have a copy is more than welcome to contact me.

B) Employing your spouse

Another common approach to minimize the combined tax position is to employ your spouse in a suitable capacity, since your spouse too will qualify for the annual personal allowance. Another alternative is to have him or her on board as a director and extract profits from the company through dividends and salary – ideally a suitable mix.

C) Letting personal property for company use

Depending on the method adopted in transferring business assets, you may be left with the option of letting certain assets retained by you for the company's commercial use. One good example to quote here is land and buildings that can be rented to the company as a profit extraction strategy.

Conclusion

The day to day administrative duties as a director may look overwhelming. Nevertheless, most of these can be delegated to experts. This tightly regulated nature will encourage systemization of many aspects of your practice which will go a long way towards increasing long term profitability. In addition, the above highlights the opportunities available for tax reductions on a routine basis through careful planning. In my next article I will be discussing the exit strategies available for you should you decide the time is right for you to retire!