



The Ltd (Private Limited Company) in the United Kingdom

By Laytons ETL

Designing the legal structure and organizing a streamlined and efficient incorporation process can be challenging when establishing a company in a foreign country. Alliuris member firms provide corporate legal services, particularly for forming companies in their home countries.

This article provides an overview of the legal form of a limited company in the United Kingdom.

The private limited company

Private companies limited by shares are by far the most common form of company in the UK, making up approximately 95% of all companies registered with Companies House on average.

This type of company is popular among small and medium-sized businesses, as well as larger companies, and its main advantages include:

- It is an independent legal entity that can sue and be sued, and it can own assets separate from those of its owners.
- The liability of its shareholders is limited. Shareholders' financial liability is limited to the number of shares they hold in the company. Therefore, if a private limited company were to go bankrupt, its shareholders would not risk losing their personal assets.
- It is the easiest type of company to form because there is no minimum capital required. A company can be started with an initial investment as small as £1. It is an independent legal entity which is able to sue and be sued and own assets separate from that of the company's owners.

Choice of seat and place of incorporation

The place of incorporation should be chosen carefully because there are three separate legal jurisdictions within the UK: (i) Scotland, (ii) Northern Ireland, and (iii) England and Wales. Each jurisdiction requires a company to maintain a registered office address. A company cannot move its registered office address from one jurisdiction to another at a later time.

Shareholder

A private company limited by shares can be founded as either a one-person or a multi-person company. It is a company whose shares are not for sale to the general public. Shareholders can be natural persons or legal entities, and foreigners can also be shareholders of a private company limited by shares.

A shareholder's liability is limited to the amount unpaid on their shares. For example, if a shareholder owns one share with a nominal value of £1, their financial liability would be £1.

If a shareholder's shares are unpaid or partly paid, they are obligated to pay the outstanding nominal value of their shares when the company demands payment.

There is no statutory requirement to hold periodic shareholder meetings. However, key decisions, such as the payment of dividends or the appointment of directors, usually require shareholder approval. Reference should be made to the company's constitutional documents in this regard.

Shareholders representing five percent of the paid-up share capital who are entitled to vote at general meetings of the company can demand a general meeting.

Management

The management and representation of private limited companies are handled by a board of directors.

The shareholders of the company decide on the appointment of the first directors. Afterwards, the two main ways to appoint a company director are by the board of directors or by an ordinary resolution of the shareholders.

The decision to appoint a director should be based on the belief that the chosen individual can run the company well.

Both UK residents and non-residents can become company directors in the United Kingdom. However, undischarged bankrupts and individuals disqualified from being a company director cannot become UK directors. Currently, it is possible for a legal entity to become a corporate director. However, current legislation requires that at least one individual be a company director, and that individual must be at least 16 years old. The government has considered banning corporate directors in the UK.

Formation

The time required for forming a private limited company depends on the workload of Companies House, but generally, a company is formed within 48 hours of an application being submitted. It is possible to pay an additional fee to Companies House to register a company on the same day as the application.

The application for registration (IN01 form) must be accompanied by the company's proposed constitutional documents, the Memorandum of Association and the Articles of Association. Both documents are public records.

The Memorandum of Association must be in the prescribed form and authenticated by each subscriber (i.e., the proposed shareholders).

The articles of association contain information on the amount of capital, shares, and rights to shares, as well as the structure of shareholders' meetings, company management, and general administrative provisions. A company may adopt pro forma articles of association, known as model articles of association, or it may adopt bespoke articles of association.

A private limited company does not acquire legal capacity until Companies House issues a certificate of incorporation, at which point it can commence business. Unlike in other countries, a private limited company does not exist as a pre-company before its registration in the company register. Therefore, a person conducting business in the name of a private limited company that does not yet exist is, in principle, personally liable pursuant to sec. 51(1) CA 2006 unless they have excluded their personal liability. To avoid delays in initial registration and increased liability risk, we offer clients the service of acquiring a pre-established company.

Share Capital

There is no prescribed minimum or maximum capital, so a private limited company can be founded theoretically with a minimum contribution of one pound. Moreover, there is no obligation to increase the capital through new contributions. Nevertheless, you should consider how the company will be financed going forward, whether through bank loans, shareholder loans, or further equity investments by shareholders.

Registration with Other Authorities

Depending on the type of business, a license may be required. For example, if the private limited company hires employees, an employer PAYE reference number must be obtained. If your business plans to undertake any regulated financial activities, including offering customer credit, your company will need to apply for authorization from the Financial Conduct Authority.

Tax Registration

Most companies can register for corporate taxes and employer PAYE at the same time they register with Companies House. Otherwise, registration with HM Revenue and Customs is necessary.

Businesses with a turnover of more than £85,000 must apply for VAT registration.

Anti-money laundering measures

UK-based private limited companies must keep a register of "people with significant control" (PSC) and provide this information publicly by filing it with Companies House.

Foreign Investment Control

In general, there are no restrictions on foreign ownership or investment in the UK. However, the notification of transactions affecting several sensitive sectors, such as communications, artificial intelligence, and transport, is mandatory.

Customs (Export / Import)

Companies operating in import and export must apply to HM Revenue and Customs for a customs number (EORI). A simplified declaration procedure is available to companies, offering multiple benefits, including faster release of goods. Authorization from HM Revenue and Customs is required for the simplified procedure.

Bank Account

Although a UK bank account is not required to form or run a UK-based company, it makes sense to record your business income and expenditures in a separate business bank account because your company is entirely separate in the eyes of the law.

A registered office address alone may not be sufficient for overseas directors to open a bank account in the UK. Often, it is required that at least one director be UK-based, but policies differ from bank to bank.

Opening a bank account with a traditional high street bank can take a number of weeks, but online banks can provide accounts within days or even hours.

Accounting

The directors are responsible for formal tasks such as signing the directors' report in the financial statements and preparing and signing confirmation statements. They are also in charge of the company's accounting.

A company's annual accounts for a financial year must be audited, unless the company meets specific financial thresholds and is therefore exempt. A company is considered small if it meets two of the following conditions: annual turnover is less than £10.2 million; gross assets are less than £5.1 million; or the average number of employees is less than 50.

Formation Expenses

The formation costs for a private company limited by shares that adopts pro forma constitutional documents are approximately £500 plus VAT.

Companies formed with bespoke constitutional documents are priced on a case-by-case basis. However, once we understand what you are looking to achieve, we can provide a fee estimate.

Corporate Tax

The corporate income tax rate for limited companies in the UK is currently 19%. However, this rate will increase to 25% in the 2023-2024 financial year. Businesses with profits of £50,000 or less will continue to be taxed at 19%.

Local Taxes and VAT

As previously mentioned, businesses in the UK are subject to various taxes, including corporation tax, VAT, national insurance contributions (NICs), and pay as you earn (PAYE).

Companies may also be subject to business rates, which are taxes paid on non-residential properties such as shops, offices, and factories. Even if you only occupy part of a building for non-domestic purposes, you may still need to pay business rates. Local councils determine business rates.

The standard VAT rate in the UK is currently 20%.

Staff

If you are starting a business in the UK that will employ staff, there are a number of things you need to do. This includes registering as an employer with the UK Revenue Commissioners and purchasing employers' liability insurance.

You can hire foreign employees for your UK business as long as they have the legal right to work in the UK. We can assist with any immigration issues that may arise.

There are minimum wage rules that apply when employing staff, and you must make national insurance and pension contributions in line with UK law.

Registered Office and Service Address Service

All UK registered companies are required to have a registered office address, which is a complete postal address in the UK.

All company officers are required to provide their residential address to Companies House, but if they do not want to make this information publicly available, they can use a service address instead. Often, the service address is the same as the company's registered office address.

If your new company does not yet have its own registered address during the startup phase, we can provide a registered office and service address for up to five directors for an annual fee of £1,000 + VAT.

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