

THE GUIDE · 2026/27 EDITION

Your First UK

Limited Company

A practical walkthrough of forming, running and growing a UK limited company in 2026/27 — from Companies House registration to extracting profits tax-efficiently, with worked examples at the new dividend rates.

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About this guide

If you're thinking about forming your first UK limited company — or you've just done it and you're wondering what happens next — this guide takes you through the practical steps using the rates and rules in force for the 2026/27 tax year.

It uses the new 2026/27 dividend tax rates (10.75% basic / 35.75% higher / 39.35% additional) which took effect on 6 April 2026, the current Corporation Tax rates (19% small profits / 25% main rate with marginal relief), and the 2026/27 thresholds for everything else.

START HERE

Is incorporation right for you?

Don't skip Section 02. With 2026/27 dividend rates, the tax case for incorporation has narrowed considerably. We've genuinely seen people incorporate because they thought it would save tax, only to find their total bill went up. Run the numbers properly first.

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SECTION 01

What a limited company actually is

A UK limited company is a **separate legal entity** from the people who own and run it. The company can enter contracts, hold assets, owe debts and be sued — all in its own name, separate from yours.

Three concepts that matter:

- 1. Limited liability** — the maximum you can lose if the company fails is what you've put in (your share capital and any director loans). Your personal home, savings and assets are protected, subject to a few exceptions like personal guarantees, wrongful trading and unpaid PAYE/VAT.
- 2. Separate taxation** — the company pays Corporation Tax on its profits. You then pay personal tax (Income Tax + NIC on salary, dividend tax on dividends) when you take money out.
- 3. Public registration** — the company exists on a public register (Companies House). Your name, address (mostly), shareholdings and accounts are publicly visible. This is a feature, not a bug — it's how the limited liability bargain works.

The three roles

In a typical small limited company, one person often holds all three roles, but they're legally distinct:

- **Director** — runs the company day-to-day, owes legal duties to the company (must act in its best interests). Minimum age 16. No nationality requirement.
- **Shareholder** — owns part or all of the company. Entitled to dividends in proportion to shareholding. Votes on key decisions.
- **Person with Significant Control (PSC)** — anyone who owns >25% of shares, or has >25% of voting rights, or controls the board. Recorded separately on Companies House.

LEGAL DUTIES

Director responsibilities are legal, not optional

Directors have statutory duties under the Companies Act 2006. Failing to file accounts on time, trading while insolvent, breaching fiduciary duty — these can result in fines, disqualification (up to 15 years) and in extreme cases criminal prosecution. Take the role seriously.

SECTION 02

Should you incorporate? The honest 2026/27 maths

The headline shift: **dividend tax rates rose by 2.75 percentage points from 6 April 2026**. The basic-rate dividend rate is now 10.75% (was 8.75%), higher rate is 35.75% (was 33.75%). The combined effective tax on profits extracted as dividends has risen materially.

For typical owner-managers extracting all their profit each year, the tax-efficiency case for incorporation is now significantly weaker than it was even a year ago.

Three worked examples

Worked example: Profit £30,000 — sole trader vs limited company

As a sole trader:

Income Tax: £3,486 + Class 4 NIC: £1,046 = **Total: £4,532** (15.1%)

As a limited company (salary £12,570 + rest as dividends):

CT on (£30,000 – £12,570) = £17,430 × 19% = £3,312

Dividend tax: £14,118 × 10.75% = £1,518

Total: £4,830 (16.1%)

Sole trader wins by £298/year at this profit level. Plus the sole trader doesn't have annual accounts, CT600, or Companies House admin to pay for.

Worked example: Profit £60,000 — sole trader vs limited company

As a sole trader:

Income Tax: £11,432 + Class 4 NIC: £2,257 = **Total: £13,689** (22.8%)

As a limited company (full extraction):

CT: £47,430 × 19% = £9,012

Dividend tax: £43,418 (after Personal Allowance + £500 dividend allowance + first £4,012 basic-rate portion) approximated at £9,247

Total: £13,572 (22.6%)

Limited company wins by £117/year — effectively a wash. The accountancy costs of running a limited company usually exceed this tiny saving.

Worked example: Profit £100,000 — sole trader vs limited company**As a sole trader:**

Income Tax: £27,432 + Class 4 NIC: £3,257 = **Total: £30,689** (30.7%)

As a limited company (full extraction):

CT: £87,430 × 19% = £16,612

Dividend tax at mixed basic/higher: ~£14,400

Total: ~£31,012 (31.0%)

Sole trader wins by ~£323/year at full extraction.

BUT: if you can leave £20,000 in the company (don't extract it), the limited company saves on dividend tax now — you defer it until you draw the money.

So when does limited company actually win?

- You can **retain profits in the company** (don't need all the income personally)
- You face **genuine liability exposure** that personal cover doesn't address
- Your **customers require** limited company status (many large clients do)
- You want to **bring in investors, partners** or sell the business later
- You want to **split ownership with family** (legitimately, using proper structures)
- You're **contributing substantially to pension** — employer contributions are fully CT-deductible

HONEST ADVICE**Don't incorporate for tax savings alone**

The tax-only argument for incorporation has substantially weakened with the new dividend rates. If your only reason is "everyone says I should" or "to save tax," pause and check the actual numbers for your profit level. We model this free in a 20-minute call.

SECTION 03

The 6-step Companies House registration

Forming a UK limited company is straightforward and quick — usually done within 24 hours of submission, often same-day. You can do it yourself online for £50, or use an accountant or formation agent.

Step 1: Pick a name

Must be unique (not the same as any other registered UK company). Must end with "Limited" or "Ltd". Cannot contain "sensitive" words without permission (Royal, Bank, Chartered, etc.). Check availability on Companies House at find-and-update.company-information.service.gov.uk.

Step 2: Choose a registered office address

Must be a UK address where official mail can be served. Will appear publicly on Companies House. If you don't want your home address public, use an accountant's registered office service (typically £30-100/year) or a virtual office.

Step 3: Decide on directors

Minimum one director, age 16+. No nationality requirement. Each director must provide name, date of birth, nationality, occupation, residential address (kept private from public view since June 2018 if you provide a service address).

Step 4: Decide on shareholders and share capital

At least one shareholder required (often the same person as the director). Standard setup: 100 ordinary £1 shares, all issued to the founder. More shares can be created later if needed (e.g. to bring in a co-founder, spouse, or investor).

Step 5: Pick a SIC code

Standard Industrial Classification — identifies what your business does. Pick from the official 2007 list at gov.uk. You can have up to 4 SIC codes. Common examples: 70229 (Other management consultancy), 62012 (Business and domestic software development), 68209 (Other letting and operating of own real estate), 86900 (Other human health activities not elsewhere classified).

Step 6: Submit and pay

Submit online to Companies House. The fee is £50 (standard service, registered within 24 hours) or £71 (same-day service if submitted before 3pm on a working day). You'll receive your Certificate of Incorporation by email, with your company number, registered office and date of incorporation.

DEFAULTS ARE FINE**Articles of association and PSC register**

These are completed automatically with the default Model Articles unless you upload bespoke ones. The PSC register starts populated with the controlling shareholder. Most first-time companies don't need to depart from these defaults — only bring in a solicitor if you have specific governance needs (multiple co-founders, investor protections, etc.).

SECTION 04

First-month checklist

Once Companies House has registered your company, there's a flurry of set-up tasks to handle. Do these in order:

Week 1

- 1. Open a business bank account.** Limited companies legally need a separate account. Starling, Tide, Mettle, Wise all offer free business accounts; opening typically takes 1-7 days. Traditional banks (NatWest, Barclays, HSBC) take 2-6 weeks.
- 2. Register for Corporation Tax** with HMRC within 3 months of starting to trade. You'll need your Companies House registration number. Once registered HMRC will send you a UTR (Unique Taxpayer Reference) for the company.
- 3. Set up your accounting software.** Xero, FreeAgent, QuickBooks. Choose one and import your opening position (initial share capital and any director loans).
- 4. Get professional indemnity insurance** if your trade requires it (consultancy, advice, design). Public liability if you visit clients' premises.

Week 2–3

- 1. Decide on year-end date.** By default Companies House sets it to the last day of the month one year after incorporation. You can change this in the first 18 months. Many small companies stick with default; some prefer 31 March (aligned with personal tax year) or month-end before a quiet period.
- 2. Register for VAT** if turnover is approaching £90,000 (or for voluntary registration if it suits your customer mix). See Section 7.
- 3. Set up payroll** if paying yourself a salary or employing anyone. PAYE registration with HMRC is straightforward via gov.uk — takes 5 working days.
- 4. Inform any relevant regulators or industry bodies** of your new company status. Some trades require notifying professional regulators of the limited company.

Week 4

- 1. Transfer business assets and contracts** from your sole trader business if applicable. Customers, suppliers, software subscriptions, domain names — all need formally moving across. Don't underestimate this; it can take longer than the formation itself.
- 2. Sign up for HMRC's online services** (the company's Government Gateway account). You'll need this for filing CT600 corporation tax returns and PAYE.
- 3. Set up a director's loan account** in your bookkeeping. Track money you've put in (positive balance) and any money you've taken out other than salary or dividends (negative balance, repayable).

SECTION 05

Corporation Tax basics

Corporation Tax (CT) is the tax your company pays on its profits. The rates for accounting periods ending 31 March 2027 are:

Band	Annual profit	Rate
Small profits rate	Up to £50,000	19%
Marginal rate band	£50,000 to £250,000	Tapered from 19% to 25%
Main rate	Over £250,000	25%

Most first-year companies pay 19%. The 25% rate doesn't kick in until £250k of profit; the marginal relief in between effectively averages out gradually.

Watch out: associated companies

If you control more than one limited company, the £50,000 and £250,000 thresholds are **divided** by the number of associated companies. Two associated companies: thresholds halve to £25,000 / £125,000 each. This catches many people out who incorporate a second "side hustle" company.

How and when CT is paid

- **Accounting period** — usually your 12-month accounting year (first one can be slightly longer or shorter)
- **Filing deadline** — the CT600 return is due 12 months after the end of the accounting period
- **Payment deadline** — the tax is due 9 months and 1 day after the end of the accounting period (so before the return is even due)
- **Large companies** (profits over £1.5m) pay in quarterly instalments instead

CASH FLOW WATCH

The 9-month payment surprise

First-time directors are often surprised that CT is due before the return is filed. Practically: you (or your accountant) need to estimate the year's CT bill within 9 months of year-end and pay it, even though the formal return doesn't have to be filed for another 3 months. Set aside cash for CT throughout the year, not at the end.

What's deductible

Most ordinary business expenses are deductible against CT. Same general principle as for sole traders ("wholly and exclusively for the trade") but with some company-specific extras:

- Director salaries and employer NIC
- Employer pension contributions (fully deductible — useful for tax planning)
- Mortgage interest on company-held property (no Section 24 restriction)
- Accountancy fees, legal fees, insurance
- Capital allowances on equipment (often via Annual Investment Allowance — £1m cap)
- Bad debts written off
- Bank charges and finance costs

SECTION 06

Extracting profits: salary, dividends, pensions

Once your company has profits, you'll want to take some of them personally. The three main mechanisms are **salary**, **dividends** and **pension contributions**. Most owner-managers use a mix.

Salary

Treated as a business expense (deductible against CT). You pay personal Income Tax and Employee NIC on it; the company pays Employer NIC. Most small companies set the director's salary at the **National Insurance Primary Threshold (£12,570)** — the highest amount that triggers no Employee NIC.

Employer NIC at 15% (above £5,000) is paid by the company on salary above the secondary threshold. So a £12,570 salary triggers about £1,136 of employer NIC, but this is itself CT-deductible.

Dividends

Paid from after-tax profits (so the company has already paid CT on the underlying profit). Dividends are taxed personally at:

Personal tax band	2026/27 dividend rate
First £500 (dividend allowance)	0%
Basic rate band	10.75%
Higher rate band	35.75%
Additional rate band	39.35%

Dividends are not subject to NIC — this is the main advantage over salary. The combination of (lower CT first, then lower dividend rate vs higher Income Tax + NIC on salary) used to make "low salary + high dividends" the dominant strategy. With the new 2026/27 rates the advantage is narrower but still exists for higher-rate cases.

Employer pension contributions

The company can pay into your personal pension pre-tax. **Fully CT-deductible** (no CT on the amount contributed). **No NIC on either side**. Goes into your pension growing tax-free until you draw it (then taxable as income, but typically at a lower rate in retirement).

Subject to the £60,000 annual allowance (for most people). Tapering applies if your "adjusted income" exceeds £260,000.

THE PENSION ADVANTAGE**Pension contributions are often the best-value extraction route**

If you can afford to live on dividends and salary alone, an additional £10,000 to pension via the company costs the company £10,000 of profit but saves £1,900 of CT — net cost £8,100 to the company. The same £10,000 to your pocket as dividends would have cost the company £10,000 of profit, then £1,900 of CT, and you'd lose another £3,575 to dividend tax at higher rate. Pension contribution is £8,100 net company cost for £10,000 in your pension; dividend is £10,000 company cost for £6,425 in your pocket.

The standard small-company extraction plan

For a typical first-year limited company owner with no other income:

- 1. Salary £12,570** (the secondary NIC threshold) — uses all Personal Allowance, no Income Tax, no Employee NIC. Triggers small Employer NIC which is itself CT-deductible.
- 2. Dividends up to basic rate band** — another £37,700 of dividends taxed at 10.75% (above the £500 dividend allowance). Total personal income £50,270.
- 3. Pension contributions** for any further surplus — uses Employer Pension to avoid both CT and dividend tax simultaneously.
- 4. Retained profits** — any remaining profit stays in the company, deferring tax until later years (or until you wind the company up with possible Business Asset Disposal Relief).

SECTION 07

VAT for limited companies

VAT for limited companies works the same as for sole traders, with the same £90,000 registration threshold based on rolling 12-month turnover. Same schemes available (Standard, Flat Rate, Cash Accounting, Annual Accounting).

Two limited-company-specific things to know:

Group VAT registration

If you have multiple associated limited companies, they can register as a single VAT group — simplifying compliance and ignoring intra-group transactions for VAT purposes. Useful for businesses with a trading company + property holding company structure.

Reverse charge for construction

If your company provides construction services to other VAT-registered construction businesses, you need to use the domestic reverse charge (since March 2021). You don't charge VAT; the customer accounts for it. Same rules as for sole-trader construction subcontractors — see our CIS guide on the website for the full detail.

MTD for VAT

Since April 2022, all VAT-registered businesses (limited company or otherwise) must use MTD-compliant software for VAT records and submissions. Your accounting software (Xero, FreeAgent, QuickBooks) handles this automatically.

SECTION 08

Annual obligations: what's due and when

Once your company is up and running, here's the calendar of annual obligations. None are optional; missing them triggers automatic penalties.

Filing	To	Deadline	Late penalty
Statutory accounts	Companies House	9 months after year-end	£150 to £1,500
CT600 Corporation Tax return	HMRC	12 months after year-end	£100 to £1,000+
Corporation Tax payment	HMRC	9 months + 1 day after year-end	Interest from due date
Confirmation statement	Companies House	Within 14 days of due date (annual)	Strike-off if missed
P11D (benefits in kind)	HMRC	6 July (if any benefits paid)	£100/month per 50 employees
P60 (PAYE)	Employee	31 May (if running payroll)	Various
PSC register update	Companies House	Within 14 days of any change	Strike-off in extremis
Self Assessment (you personally)	HMRC	31 January	£100+

MOST-MISSED**Diarise these now**

First-year directors are most likely to miss the confirmation statement (an easy oversight — it's annual and the date is set by your incorporation date) and the 9-month CT payment deadline. Add both to your calendar with two-week reminders.

SECTION 09

Common first-year mistakes

01. Mixing personal and company money

Keep them strictly separate. Don't pay personal expenses from the company account. Don't let company money sit in your personal account. Mixing creates director's loan account issues, possible Section 455 tax charges, and looks bad to HMRC in any enquiry.

02. Treating dividends as a salary

Dividends can only be paid from retained profits — profits the company has actually made after CT. You can't pay yourself a dividend in a loss-making year, or one larger than your available reserves. Doing so creates an "illegal dividend" that becomes a director's loan, with possible tax charges and personal liability.

03. Forgetting that CT is due 9 months after year-end

Many first-year directors plan for the 12-month filing deadline but forget the earlier 9-month payment deadline. Result: an unexpected cash demand 3 months before the return is even filed.

04. Missing the confirmation statement

The confirmation statement is annual and easy to forget because Companies House emails go to the registered office. Missing it can ultimately result in the company being struck off the register — with all its assets becoming Crown property (*bona vacantia*).

05. Drawing a director's loan and forgetting Section 455

If you owe the company money 9 months after year-end (and haven't repaid it), the company owes HMRC 33.75% of that loan as Section 455 tax. It's refundable when the loan is repaid, but the cash flow hit is real and often unexpected.

06. Not having a Shareholders' Agreement when there are co-founders

If two or more shareholders own the company, the default Model Articles often don't cover what happens if one wants to leave, dies, becomes incapacitated, or disagrees on strategy. A Shareholders' Agreement costs £500–£2,000 to draft and saves enormous trouble down the line.

07. Trying to claim director-shareholder loan interest unilaterally

If the company owes you (positive director's loan account), you can charge interest — but it needs board approval, written documentation, and the rate must be at arm's length. Many people try this informally and HMRC disallows it in enquiry.

08. Forgetting that closure isn't free

When you eventually close the company, you'll either wind it up formally (MVL — Members' Voluntary Liquidation, costs £1,500–£3,000), or strike it off (free but limited to small uncomplicated cases). Either way, retained reserves over £25,000 are usually best extracted via MVL to access Business Asset Disposal Relief

at 14% (rising to 18% from April 2026).

09. Misjudging dividend timing across tax years

If your personal tax band changes year-to-year (e.g. you take a sabbatical, or earn extra in one year), you can save tax by timing dividends to fall in your lower-band year. Many people pay dividends based on company cashflow rather than personal tax planning.

10. Not using the employer pension allowance

Easily the most missed tax planning opportunity. Pension contributions via the company are deductible against CT, no NIC, and the money grows tax-free in your pension. Most owner-managers with surplus profits should max this before paying additional dividends.

SECTION 10

What to do next

If you're researching whether to incorporate

1. Run the numbers honestly for your profit level (Section 2)
2. Identify your **non-tax** reason for incorporating (liability, customer requirements, growth)
3. If the only reason is tax savings — reconsider, given 2026/27 rates
4. Talk to an accountant for an objective view on whether your specific situation suits incorporation

If you've decided to incorporate

1. Form the company at Companies House (Section 3) — £50 takes 24 hours
2. Work through the first-month checklist (Section 4) systematically
3. Set up bookkeeping software immediately — don't wait until the first year-end
4. Diarise all the annual obligations (Section 8) before they catch you out
5. Plan your extraction strategy (Section 6) for the year ahead

If you've already incorporated and you're feeling lost

1. Check whether your first year-end is approaching — CT600 + accounts have specific deadlines
2. Confirm your confirmation statement isn't due soon
3. Get a clean record of your director's loan account from day one to now
4. Review your salary/dividend mix — many first-year directors take suboptimal combinations
5. Get an accountant onboard if you haven't yet — the first-year tidy-up is usually cheaper than DIY mistakes

Talk to Fernside Accounting about your first limited company

We help first-time directors set up properly and avoid the common pitfalls. Free 20-minute call to discuss your specific situation — whether to incorporate, how to structure things, what to budget for ongoing.

BOOK A FREE 20-MIN CALL

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Important notes

This guide is published for general information only. It reflects UK company law, tax law and HMRC guidance as understood in May 2026, applying to the 2026/27 tax year. Rules change frequently and the application to your specific situation may differ.

Nothing in this guide constitutes personal legal, financial, or tax advice. Forming a limited company has personal consequences and you should consult a suitably qualified professional adviser before acting.

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For specialist tax advice on complex matters — corporate restructuring, international tax, R&D claims, HMRC investigations, mid-market and large company tax planning — our sister firm The Tax Lead (thetaxlead.co.uk) led by Shamim Bhuiyan FCCA, CTA, BSc may be a better fit.

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