MSF Associates
Accountants & Business Advisers

THE MSF ASSOCIATES FLAGSHIP GUIDE

Legally Poor

How UK limited company owners accidentally overpay by doing everything **“by the book”**

ALL FILED
ALL COMPLIANT
ALL LEGAL
STILL OVERPAYING

CONTENTS

Nine beliefs, taken apart

> Each chapter names a belief that's quietly keeping you smaller, more exposed, or more taxed than you need to be. Then it takes it apart.

The belief that's already cost you money

THE BELIEF

~~"I'll sort out proper structure once I'm bigger."~~

It sounds sensible. It sounds responsible, even. Get the business working first, then worry about tax planning, holding companies, family structures, all of it, later. Later, when there's more money. Later, when it's worth it.

Except later doesn't work the way you think it does.

Every single structuring mistake in this book got more expensive the longer it was left. Not slightly more expensive. Multiples more expensive. A director who could have set up a holding company for a few hundred pounds ends up needing HMRC clearance, legal fees and a six month process to do the same thing two years later, because by then the company's grown and untangling it is a different job entirely.

The businesses that got this right didn't wait until they were "big enough." They got the structure right when it was cheap and simple to get right, and then grew into it.

> THE REFRAME
>
> **You are not too small for this. You're not too early either. The size of your business isn't the deciding factor. Whether you're one filing away from a problem is.**

01

The extraction myth

THE BELIEF

~~“My accountant just sorts out how I pay myself.”~~

Paying yourself is admin. Something your accountant handles in the background while you get on with running the business.

THE REALITY

How you extract money from your company is one of the biggest tax decisions you'll make every single year, and if nobody's actively deciding it, it's being decided for you by default, usually badly.

Most director-shareholders in the UK take a small salary and the rest as dividends. What's not common knowledge is that “small salary plus dividends” isn't a fixed formula. It's a dial. And most people have never had a hand on it.

PERSONAL ALLOWANCE

£12,570

No income tax at all below this line.

BASIC RATE CEILING

£50,270

One pound over and dividends jump from 10.75% to 35.75%.

DIVIDEND ALLOWANCE

£500

Then 10.75%, 35.75%, 39.35% by band.

2026/27 figures. Owners who don't actively manage this drift over the line without noticing, often because profit had a good year and nobody adjusted the plan to match.

MYTH	REALITY
"A small salary and dividends is just how it's done"	The ratio should be recalculated every year against your actual profit and personal tax position
"My accountant sets this automatically"	Most reactive accountants use last year's number, not this year's optimal number
"Dividends are always better than salary"	Not always. Salary above the lower earnings limit builds your state pension. Pure dividends don't
"It doesn't matter when I take the money"	Timing dividends across tax years, or across a couple, can keep you out of a higher band entirely

BELIEF SHIFT

Extraction isn't something that happens to you once a year when your accountant runs the numbers. It's a decision, and it should be reviewed before the tax year ends, not after.

DO THIS

Ask your accountant, before your next year end: "Based on this year's actual profit, is my current salary and dividend split still the most efficient one, or are we running last year's plan?"

The VAT threshold trap

02

THE BELIEF

~~“I'll deal with VAT when I get there.”~~

VAT is a future problem. Something that kicks in once the business is properly established, and there'll be plenty of warning when it does.

THE REALITY

VAT registration isn't based on your financial year. It's based on a rolling 12 month total, checked constantly, and it becomes mandatory the moment you cross £90,000 in taxable turnover in any rolling 12 month window.

Businesses don't cross the VAT threshold on one big invoice they clearly remember. They drift over it through a run of decent months that nobody was tracking on a rolling basis, and by the time it's spotted, they're already several months into being over, with an obligation to register that HMRC backdates.

That backdating is where the real damage happens. Every invoice issued between crossing the threshold and noticing should have had VAT on it and probably didn't. You either eat that VAT yourself, at 20% of the affected revenue, or go back to clients and ask them to pay it retroactively. On top of that, HMRC can apply penalties for late registration.

THE THRESHOLD

£90,000

Rolling 12 months, not your year end

RECALCULATED

Monthly

Every single month, without exception

COST OF MISSING IT

20%

Of affected revenue, plus penalties

MYTH	REALITY
"I'll register when my accountant says it's time"	Reactive accountants check this annually at best. The threshold is monthly, rolling
"I'm nowhere near £90k so I don't need to think about it"	Growth is rarely linear. A strong quarter can close that gap faster than expected
"Registering for VAT is a sign I've made it"	Waiting past the threshold isn't success, it's an unmanaged liability
"I can register when I notice I'm close"	Being close isn't the trigger. Crossing it is, and it's often already happened

BELIEF SHIFT

VAT isn't a milestone you'll obviously hit. It's a number that needs checking every single month, especially once you're within striking distance.

DO THIS

If your rolling 12 month turnover is within £15,000 to £20,000 of £90,000, get it checked monthly, not annually.

03

Corporation tax isn't something you file. It's something you plan.

THE BELIEF

~~"My accountant already minimises my tax."~~

Corporation tax is handled. It gets calculated, it gets filed, it's sorted.

THE REALITY

Filing correctly and planning proactively are two completely different services, and most limited company owners are only getting the first one while assuming they're getting both.

For the financial year beginning April 2026, the main rates of corporation tax are 19%, 25%, or 25% with marginal relief, depending on where your profits fall. Where your profit sits in that band has a direct, calculable effect on what you owe, and it's influenced by decisions made during the year, not just reported after it.

A proactive review, done while the financial year is still open, can shift outcomes: timing a big purchase before or after year end, additional pension contributions through the company, equipment purchases that qualify for capital allowances this year rather than next.

LEVERS THAT ONLY WORK BEFORE YEAR END

Timing a large purchase

Before or after year end changes which year it reduces.

Company pension contributions

Paid by the business, deductible in the year they're paid.

Capital allowances

Equipment claimed this year rather than next.

MYTH	REALITY
"Filing on time means my tax is optimised"	Filing on time means you've avoided a penalty. It says nothing about whether the bill was minimised
"There's nothing to plan, the number is the number"	The number is heavily influenced by decisions made before year end
"Tax planning is for bigger companies"	The mechanisms apply at any profit level
"My accountant would tell me if there was something to do"	Only if they're reviewing your position before year end

BELIEF SHIFT

The difference between a good and an average corporation tax outcome usually isn't a clever loophole. It's whether anyone looked at the numbers with enough time left in the year to change them.

DO THIS

Ask for a pre-year-end review, not a post-year-end filing, with at least two to three months of the financial year still open.

Holding companies aren't for "big corporates"

04

THE BELIEF

~~"That's a big business thing, not a me thing."~~

Holding companies are complicated corporate structures for large, established businesses. Not relevant to a single trading company with one or two directors.

THE REALITY

A holding company simply owns shares in your trading company, sitting above it rather than trading itself. What it creates is separation between the risk inside your trading business and the money and assets you've built.

Profits can move from a trading company up to a holding company largely tax-free, through the dividend exemption between UK companies. Retained profit sits safely, protected from whatever happens inside the trading company, while still available for reinvestment.

Without that structure, retained profit sits inside the trading company itself, fully exposed to any claim, bad debt, or failed contract. A director loans money across to fund a new venture; if that venture fails and the loan can't be repaid, it can be reclassified as a taxable benefit — a personal tax charge on money already lost.

WITHOUT A HOLDCO

Retained profit sits inside the trading company, exposed to every claim, bad debt and failed contract.

WITH A HOLDCO

Profit moves up largely tax-free and sits protected, still available to reinvest.

MYTH	REALITY
“Holding companies are for big corporates”	**Any director with retained profit or more than one venture can benefit**
“I can just loan money between my companies”	**That loan carries the new venture's risk, and can trigger a personal tax charge if it fails**
“Setting this up is expensive and complicated”	**Simple and low cost before you need it. Expensive and complicated to unwind if you wait**
“I'll do this once I have more than one company”	**The ideal time is before you need the protection, not after**

BELIEF SHIFT

A holding company isn't a reward for getting big. It's protection you put in place while there's still time for it to matter.

DO THIS

If you have retained profit or you're planning any second venture, ask whether a holding company should be in place before that money moves.

05

Family investment companies

THE BELIEF

~~"Investing through family is complicated, and I'm not rich enough for it to matter yet."~~

Family Investment Companies are for wealthy families with serious assets already in place. Not relevant to someone still building.

THE REALITY

A FIC is a private company set up to hold and grow family wealth, with shares structured across family members. The earlier the structure is in place, the more benefit it has time to generate.

Instead of profit sitting solely with the person who generated it, a FIC allows income and growth to be shared across shareholders, each using their own personal allowances and lower tax bands rather than everything stacking against one person's rate. Growth compounds inside the structure from day one.

Shares can be structured so children benefit from future growth without ever taking control or income before it's appropriate. A way of starting to pass on wealth without giving up any control today.

Spread across allowances

Each shareholder uses their own bands instead of stacking on one rate.

Compounds from day one

Growth builds inside the structure, not added to it later.

Control stays with you

Children benefit from growth without taking control or income early.

MYTH	REALITY
“I need to already be wealthy for this to make sense”	Setting it up early lets growth build inside a tax-efficient structure from the start
“This is only for passing on money to children”	It's also a working structure for holding and growing investment profit generally
“It's too complicated to set up”	The structure itself is straightforward. What takes care is getting the shareholding right
“I'll do this once I have serious assets”	By then, moving assets into the structure often triggers tax charges

BELIEF SHIFT

A FIC isn't a finish line you reach once you've made it. It's a container you build early, so whatever you make from here goes into something efficient from the start.

DO THIS

If you're holding investment property, building retained profit, or thinking about passing wealth to children, ask whether a FIC should be part of that plan now.

06

The mistakes that are cheap to avoid and brutal to undo

THE BELIEF

~~"I can restructure whenever I want."~~

Structure is flexible. If it's wrong today, it can just be fixed later.

THE REALITY

Some structuring decisions require formal HMRC clearance and months of process. The later a structure is fixed, the more it looks like exactly what HMRC is trying to prevent, even when it isn't.

Intercompany loans used instead of a proper holding structure work fine, until one business needs selling, refinancing, or protecting from the other's risk. Banking and shareholder structure clashes, particularly with non-UK directors, often mean closing the company and starting again. And the most common of all: waiting until a business is under threat before finally putting protective structure in place.

THE COST CURVE

NOW	LATER	UNDER THREAT
Days, a few hundred pounds	HMRC clearance, months of process	Looks like avoidance, may not be possible

MYTH	REALITY
"I can restructure any time I want"	**Some changes need formal HMRC clearance and take months, not days**
"It's fine to sort structure once there's a problem"	**Restructuring under threat looks like avoidance, even when it isn't**
"An informal loan between my companies is fine for now"	**It works until one company needs protecting from the other**
"Getting it wrong now just means fixing it later"	**Fixing it later is often ten times the cost and time**

BELIEF SHIFT

The best time to get structure right is before you need it to be right, while it's still simple, cheap, and clearly not motivated by an active problem.

DO THIS

If your current structure was set up quickly or "for now," get it reviewed while nothing is wrong.

07

Future-proofing: building something worth something

THE BELIEF

~~"Exit planning is for later, once I'm ready to sell."~~

Thinking about selling the business, or handing it on, is a conversation for years down the line. Right now the job is just running it.

THE REALITY

The decisions that make a business sellable are made years before any sale conversation happens, and by the time you're ready to sell, most of them can no longer be changed.

Clean, separated financial records. Management accounts, not just bank transaction history. None of that can be created retroactively.

Years of genuinely strong trading, undermined at the point of sale by financial records too disorganised to prove it. That's not a sales problem. That's a structure problem, years in the making, quietly, the whole time nobody was thinking about an eventual sale.

WHAT YOU HAVE	WHAT A BUYER WANTS
Bank statements and a good feeling about the numbers.	Management accounts, clean separation, and years of consistency behind them.

MYTH	REALITY
"I'll think about this when I'm ready to sell"	**By then, years of financial habits are already baked in and hard to unwind**
"My bank statements show the business is doing well"	**Buyers and investors need management accounts, not bank statements**
"Mixing personal and business finances is fine while it's small"	**One of the fastest ways to make a business look unsellable later**
"This only matters if I'm planning to sell"	**It also matters for finance, investors, or simply understanding your own numbers**

BELIEF SHIFT

You build a sellable business by running clean, structured finances from early on, so whenever the moment arrives, you're already standing on solid ground.

DO THIS

Ask yourself honestly whether your current records could prove what the business is worth, in a conversation, without weeks of preparation.

YOUR NEXT MOVE

Seven boxes. Tick the ones you could defend today.

None of the beliefs in this book are stupid. They're reasonable-sounding defaults nobody ever questioned, because nobody laid out the mechanics next to them.

- [ ] Salary and dividend split reviewed against this year's actual profit, not last year's
- [ ] Rolling 12 month VAT turnover checked monthly if within £20,000 of £90,000
- [ ] Corporation tax reviewed before year end, not just filed after it
- [ ] Holding company considered if retaining profit or planning a second venture
- [ ] Family Investment Company considered if building investment assets or thinking generationally
- [ ] Any informal structure reviewed while nothing is currently wrong
- [ ] Financial records clean enough to withstand outside scrutiny at any point

> If a few boxes are shaky, that's not a failure. That's just what happens when structure gets left to “later” by default. Now it has been laid out.

BEFORE YEAR END
NOT AFTER

THE SINGLE NEXT STEP

Book a proactive structure and tax review.

Before your next year end, while there's still time to act on whatever it finds. Not a filing appointment. A planning one.

Click here to book your review →

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