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# Dangers of One Director

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## Benefits of Solo Directorship

The idea of having sole ownership and control over your own company might sound ideal. After all, it is your company. Going solo means that you have autonomy, and you don't need to consult with and seek approval from other directors. Running a business on your own also gives you the assurance that you will try to do the best for your business and not be reliant on the decisions of others. Sole directorship also implies effective communication and 100% profit retention.

## Tax Efficient Income

There is also the benefit of having a tax-efficient income. The latter means that part of your salary can be issued to you as dividends, which are paid from company profits after the deduction of 20% Corporation Tax. The first £5000 of dividend income per year is tax-free. Above that amount, you will pay dividend tax through Self-Assessment. Dividend tax rates are always lower than income tax rates.<sup>1</sup>

But being a sole director has a dark side. Read on to find out more.

## Sole Directorship Disadvantages

More often than not, the potential benefits of sole directorship outweigh the negatives. However, being the only director means that you take full responsibility for company accounts and tax payments. You will need to appoint accountants and check that they are correctly preparing annual financial accounts for both the HMRC and Companies House. You will have to ensure that a confirmation statement for Companies House is completed at least once every 12 months.

## In the Event of Death

What would happen to your business should you die unexpectedly? The first major concern is who will take control and be responsible for the day-to-day running of the company? Who will pay salaries, rent, bills and other outgoings? For companies with sole directorships, bank accounts are usually structured so that only the director can authorise payments. When you are no longer around, nobody will be able to pay the bills, even if there is money in the bank. In this case, the company will be unable to continue until a new director signatory is appointed.

Should the sole director of a company die, the business will also be in breach of the statutory requirement to have at least one natural director at all times according to Section 155 of the 2006 Companies Act.<sup>2</sup>

The death of a sole director often has a detrimental impact on the business itself. Appointing a new director and possibly a secretary to manage operations, takes time. All the while, your product or service supply chain can be severely disrupted costing money and affecting the productivity of employees.

It is vital for a personal representative of an estate to have the authority to appoint a new director when the deceased individual was the sole director and shareholder of the company.<sup>3</sup> You should also be aware that if a company was incorporated before the 2006 Companies Act then the personal representative (PR) of the deceased director's estate will need to request a court order before appointing a replacement director. This process is costly and time-consuming.

### **Intestate**

If a sole director dies without a will in place, or intestate, matters are even worse. A close relative or another person would need to apply for letters of administration to manage the estate – again a process that can take months and the company will not be able to operate. Banks and other financial institutions will probably be unwilling to accept instructions in relation to a company's trading account if they are not satisfied there is someone properly authorised to act for it. Equally, staff and suppliers will not be able to be paid, which can quickly have a disastrous effect on the reputation and value of the company.

### **References**

<sup>1</sup> Forum of Private Business 4 September 2017 - Advantages And Disadvantages Of Being A Solo Director Of A Limited Company: <https://www.fpb.org/advantages-disadvantages-solo-director/>

<sup>2</sup> Accounting Web 11 November 2019 - The importance of updated articles of association: <https://www.accountingweb.co.uk/practice/general-practice/the-importance-of-updated-articles-of-association>

<sup>3</sup> boodle Hatfield – Death of a Sole Director: <https://www.boodlehatfield.com/the-firm/articles/death-of-a-sole-director/>

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