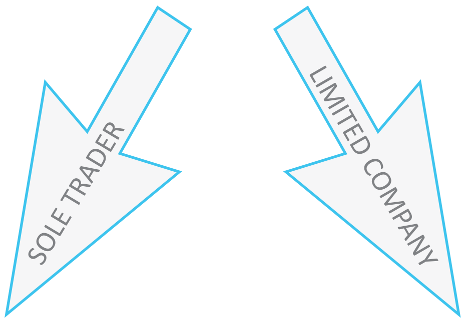
Limited Company VS Sole Trader Cheat Sheet

FAST FACTS

- Businesses can trade as a sole trader, a limited company or a partnership. These all have different set ups and reporting requirements.
- Limited companies require greater set up and annual reporting than sole traders, but they offer greater protection in the form of limited liability to the owners.
- Sole traders pay Income Tax on the profit they make, while limited companies pay Corporation Tax. Money taken out of a limited company by its directors is taxed as personal income.
- Whatever form you start your business in you can change it down the line.

WHAT ARE MY OPTIONS?



A sole trader is someone who is self-employed. This is the simplest business there is and can be set up by simply registering on the gov.uk website for tax purposes. A sole trader will be owned and run by the person who set the business up. Legally and for tax purposes there is no separation between the business and the person. If two sole traders want to work together they can set up a sole trader partnership.

A limited company is a separate legal entity to the owner of the business. It's owned by shareholders (this may just be one person) and run by the directors or managers. The same person may be the shareholder and director of the company, so in the day to day operations it will act in much the same way as a sole trader. A limited company needs to be registered with Companies House.

WHAT ELSE?

The admin of a Limited Company can make it seem like an overwhelming scary option, but that's what accountants are for! Day to day as a business owner there is not a huge differnce between Sole Traders and Limited Companies.

You pay tax on Sole Trader profit as its earnt. You will pay corporation tax on profits as you make them, but you can be smart about when you pay dividends to reduce that tax.

When making your decision it might be handy to know how each option will affect other aspects of running your business. As a guide, here are some of the key things you might consider when making your choice.

	Sole trader	Limited company
Formation	No formation process or costs, however you must register with HMRC.	Must be formally incorporated on Companies House, have directors appointed and Articles of Association.
Filings and record keeping	Records must be kept to complete the year end tax return.	Limited companies must keep accounting records, file statutory accounts and confirmation statements.
Liability	The owners are liable for any business debts as if they were their own.	Owners are protected from the liabilities of the business as it's a separate legal entity.
Tax (see 'tax' section for more details)	All profit is taxed as it occurs, as personal income at the relevant Income Tax rate. National Insurance (NI) will be paid as well.	Profits in the company will be taxed at the Corporation Tax rate, currently 19%. (This is changing from April 2023) Drawings from the company can then be taken in the most tax efficient manner for the director, either as salary or dividends.
Selling the business	It can be hard to sell parts of the business since there is no legal structure, which shuts down a source of investment if needed.	Shares of the company can be sold to other people to raise funds, motivate employees or pass ownership on to someone else.
Prestige	A sole trader may not carry the same prestige as a limited company.	A limited company gives an air of respectability and seriousness that a sole trader may lack.

It can also be helpful to see how you and your business are separated if you choose to become a limited company.