

# Sole Trader vs. Ltd Company

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I am often approached and asked whether being a limited company or sole trader will be most beneficial, specifically for new businesses.

The answer to this question very much depends on your personal position, your business type, expectations and goals and how much control you wish to have over your business.

It is a common misconception that forming a limited company will save you money. It can, depending on your personal tax position, save you tax, however this doesn't necessarily mean it will save you money in the long run.

There is also a misconception that there are many similarities between running a limited company and trading as a sole trader – There are NONE.

Below, I have laid out the main pro's and con's of both business structures along with a paragraph or two, to help you better understand their differences.

## SOLE TRADER PROS

- **Control - You have complete control over your assets and business decisions. It's also relatively easy to wind up or change structure if you grow.**
- **Less Administration - Fewer statutory obligations mean less paperwork.**
- **Lower accountancy costs - Because accounting is simpler, fees will be lower.**
- **Employment status - The employment status risk lies with the client, not you.**
- **No set up costs - There is no need to register your business at Companies House, so the paperwork is very simple, you do not require the services of a solicitor or a formation agent so there are no fees to pay.**
- **Privacy - Unlike a limited company, where all information concerning the business, including director's details and annual accounts are made public, information about sole traders is kept totally private.**
- **Profit retention - As a sole trader you retain all the profits of the business**

## SOLE TRADER CONS

- **Liability** - You may be personally liable if things go wrong. Your own finances and possessions may be at risk.
- **Raising funds** - It can be more difficult to raise funding as you will appear less established and less able to repay.
- **Status** - Some clients look more favourably on Limited Companies.
- **All profits are chargeable to Tax and NI.**

*In simple terms, a sole trader is a business that is owned by one person, although you can also have people working for you. As a sole trader, you are personally trading as your business. It is different to operating as a limited company where the business is its own legal entity. As a sole trader, you and the business are treated as a single entity for tax and administrative purposes.*

*The sole trader route is the most popular way of starting up a business in the UK as it is often seen as the quickest and cheapest route. It is also a great way to try working for yourself for the first time if you want to test the water before deciding to set up a limited company. You can always choose to take this route at a later date. Going the other way, changing from a limited company to a sole trader, is a much more complicated process.*

## LIMITED COMPANY PROS

- **Credibility** - Some clients will view a Limited Company in a more positive light.
- **Lower personal financial risk** - Because of its structure and separation between you and the company, you are protected from the threat of personal financial losses if things go wrong.
- **Tax planning** - Various tax planning opportunities exist which can be tailored to your circumstances where applicable.
- **A legal entity in its own right** - In other words, it has its own legal rights and obligations. So the business itself can continue regardless of the death, resignation or bankruptcy of the shareholders or directors.
- **Withdrawals** - If there are retained profits at the end of the year, shareholders may be issued a payment by way of dividend, which attracts no NI.
- **Protection** - As well as the limited liability protection mentioned above, once you have successfully registered your company, your company name is protected by law. Companies House has very stringent rules for the naming of companies so no one else can use the same name as you, or anything deemed too similar.

## LIMITED COMPANY CONS

- **Administration** - There are greater statutory obligations, such as

**submission of Annual Accounts, Corporation Tax Returns, annual returns and director's tax returns.**

- **Costs - Because of the range of statutory obligations, there are usually higher accountancy costs if you don't get things right, higher financial penalties.**
- **A legal entity in it's own right – meaning the profits made, belong to the company and not its directors – it cannot simply be withdrawn, it must be issued either by way of salary or dividend (dividends are only available to shareholders if the company has retained profits at the end of the year).**
- **Directorship - Directors of limited companies hold obligations under the Companies Act 2006.**
- **IR35 - You must show that you are genuinely self-employed and not just a disguised employee. This will typically require an IR35-friendly contract with working practices to match.**

*Setting up, owning and operating a limited company is a major commitment. Once you decide to go for it, you will be responsible for each and every step of the process and for ensuring these are all managed and completed correctly. There are strict legislative deadlines and harsh penalties should these be missed.*

*It is the director's responsibility to ensure that the company meets its obligations and that it is run in accordance with The Companies Act 2006. According to this act, all Private Limited Companies must have at least one director. You need to ensure that the company complies with company law, that it accounts properly with full disclosure, that it makes all statutory returns, is adequately insured and meets all health and safety obligations. Ensuring the company meets all of these obligations creates a degree of administration. You will be responsible for filing company accounts, for arranging payment of Corporation Tax, National Insurance and PAYE obligations. Depending upon the turnover of your business, you may also have to file VAT returns. These need to be done correctly, to the required specifications by the imposed deadlines and any tax due must be paid on time. Being the director of a business carries considerable responsibility. Having the right team of professionals to support you is key, including an experienced accountant.*