A free guide from Accounting Clarkes Ltd.

Sole Trader or Limited Company – Which is best for you?

One of the most common questions asked by business owners is "should I be a sole trader or incorporate into a limited company?" This question can be asked repeatedly through the lifecycle of the business because the right answer can change, just as the company does.

Did you know...

... at the start of 2023, there were 3.1m sole proprietorships (sole traders) and 2.1m actively trading companies.

It's important to have the right organisational structure in place because it impacts everything from personal liability to taxation. Every business owner needs to carefully consider their individuals circumstances, goals, and preferences which is why there is no clear-cut answer to the question *"should I be a sole trader or limited company?"*

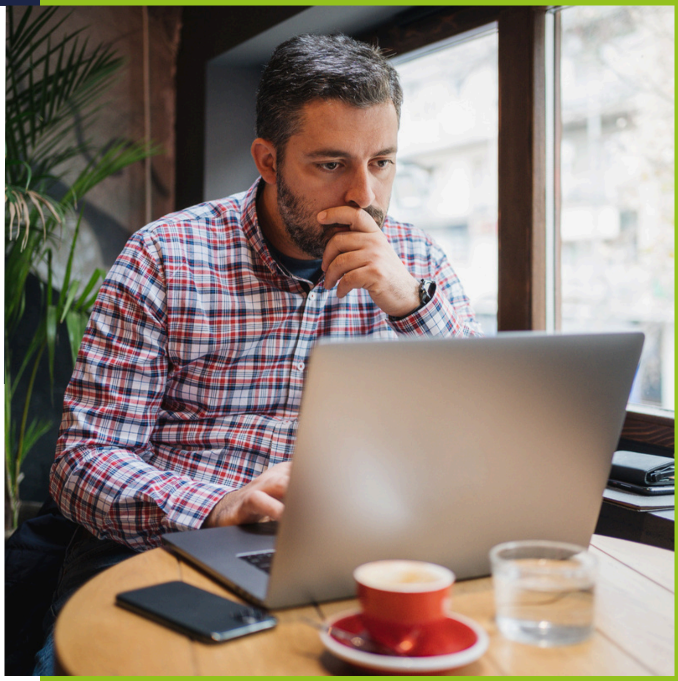
Accounting Clarkes is here to help!

Because this is such a common question, the team at Accounting Clarkes have pulled together this free guide to help you make the right decision for your business. There are pros and cons to both legal forms of business. This guide will get you to think specifically about which form is right for you in terms of time and management. Let's jump in!

Areas to consider.

Setting up.

Whichever legal entity you decide upon, there are legal steps you have to take to formally declare your business.



Sole trader.

You will need to notify HMRC that you are self-employed and operating as a sole trader, which is easily done via the gov.uk website.

This is also where you will inform HMRC that you will pay your taxes through the self-assessment tax return.

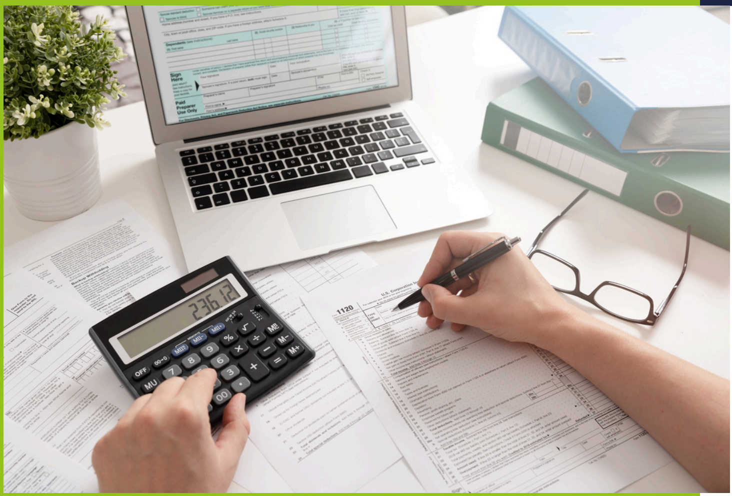
Limited company.

Setting up as a limited company requires a bit more preparation. You'll need to register your company with Companies House which requires two specific documents (Memorandum of Association and Articles of Association). You will also need to carefully consider the company name you choose and check it against the Companies House register to ensure it is not already in use.

You must provide a registered office address and email address when you set up a limited company – ensure you check the requirements for what constitutes a registered address as these were updated in 2024.

Areas to consider.

Compliance, admin and tax.



You have legal responsibilities to fulfil regardless of which legal form you choose.

Sole trader.

You must submit your self-assessment tax return by 31st January following the end of the tax year. This is how you inform HMRC of the income tax you are due to pay on your profits. HMRC will confirm when that tax is due to be paid. Failure to pay on time could result in a penalty fine and interest being applied so it's essential to submit your tax return and pay your tax on time.

Limited company.

If you register your company online, you'll automatically be registered for corporation tax (if your company was registered by a third party, you should register within 3 months of starting your company). You will need to file company accounts and a corporate tax return annually. If you're a company director you are obliged to complete a self-assessment, though there are some exceptions. If director-shareholders are paying themselves a salary, a PAYE scheme will also need to be set up with HMRC (more about that in the next section).

As you can see, having a limited company does have slightly more compliance requirements compared to a sole trader.

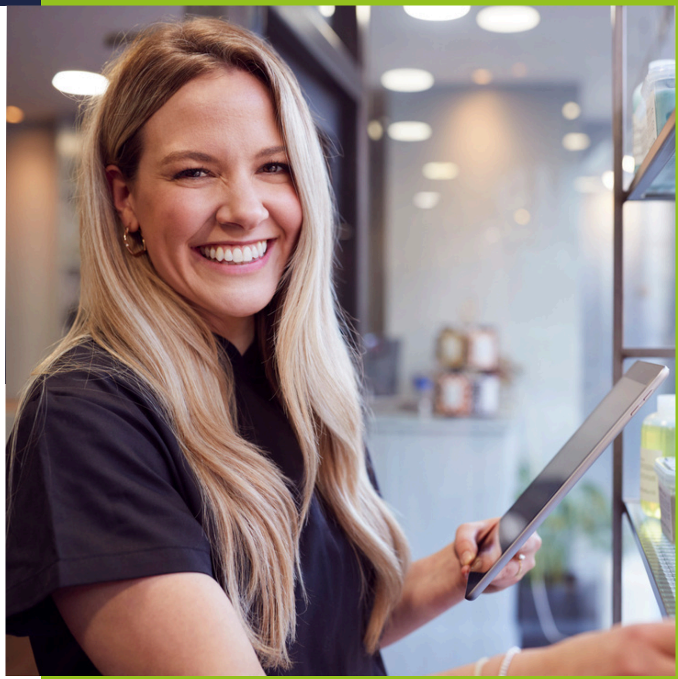
Registering for VAT.

Once the business generates £90,000 in revenue (sole trader or limited company), you will need to register for VAT. Every three months, a quarterly VAT return will need to be submitted via accountancy software to HMRC.

Areas to consider.

How you pay yourself.

The ownership of the money in the business is different depending on which legal entity you opt for, and that impacts how you will be paid.



Sole trader.

As a sole trader, the money in the business is yours to spend how you like, so you can pay yourself what you wish, providing there is enough cash in your bank account.

However, you are personally liable to pay the tax on that income when it’s due.

Limited company.

For limited companies, the money belongs to the company, and what is spent must be accounted for. You can choose to pay yourself through salary or dividends but need to be mindful that you will pay tax on each income differently. The same is true for any cash you borrow via a director loan account – you could be liable for tax and interest. You also need to consider the tax implications of benefits in kind including company cars and health care. These are assets which belong to the company first.

For your personal and business finances to be as tax efficient as possible you will need to plan your tax affairs. Your accountant will be a great source of advice when it comes to tax planning.

Areas to consider.

Responsibilities of a director.

As the saying goes: “With great power comes great responsibility.” Running a successful business brings opportunity for financial gain, but it is now without responsibility.

Sole trader.

As a sole trader you are responsible for all aspects of running a business. You are also personally liable for all the business's debts and losses, which could put your personal assets at risk.

Limited company.

Forming a limited company gives your business the advantage of protecting your personal assets, so if the company falls into debt, you will not be held personally liable to repay your creditors. As the director of a limited company you are legally responsible for your company’s records, accounts and performance, and risk fines or prosecution (and being disqualified as a company director) if you do not meet your responsibilities.

The level of responsibility and personal liability is often the most influential factor when deciding whether to incorporate into a limited company.

Are you ready to decide?

Sole Trader or Limited Company – Which is best for you?

We hope that this guide has shared more insight into the differences between being a sole trader and a limited company.

Accounting Clarkes can help you to decide what is best for your business and to help it grow.

Guide authors from L-R: Lizzy Hampton, Administrator and Bookkeeper; Gillian Clarke MAAT Licensed Accountant, Managing Director; Chris Clarke, Licensed Accountant, Operations Director.

Without knowing your individual circumstances, we couldn't create a guide that gives you a definitive answer as to which legal entity your business should be. It's not possible and could be misleading. No two companies or directors are the same.

This is probably the first strategic decision you need to make for your business so it's important you get it right, and to do that you need to consult with a professional... like **Accounting Clarkes!** Not only will it mean you have your company set up correctly and as tax-efficient as possible. It saves you the time and headache of reversing your decision if it is wrong.

Book a FREE discovery call!

The best next step you can take is to book a free discovery call with Accounting Clarkes today.

Call 01252 612454
or email gillian@accountingclarkes.co.uk