Ltd Company v's Sole Trader

Every business, no matter how big or small needs a business structure. When starting a business, one of the first decisions will be to decide whether to run your business as a Sole Trader or a Limited Company. What are the main differences?

What is a Sole Trader?

A Sole Trader is essentially a self-employed person who is the sole owner of their business. It's the *simplest* business structure.

A sole trader is liable for the debts of the business, which means their home and personal assets may be at risk if they are unable to pay the business debts as they fall due.

Sole traders must register with HMRC for tax self-assessment as a self-employed person. They must complete an annual self-assessment return and pay income tax and Class 2 (and in some cases also Class 4) National Insurance contributions.

What is a Limited Company?

A limited company is a type of business structure that has its own *legal identity*, separate from its owners (shareholders) and its managers (directors). This remains the case even if it is run by just one person, acting as shareholder and director.

The owners of a company benefit from limited liability, and the company itself can own property and other assets, as well as sue and be sued.

A private limited company must be incorporated with Companies House and registered with HMRC. It can be limited either by shares or by guarantee.

Sole Trader V's Limited Company

Sole Trader Advantages

- Easy to set up and relatively little paperwork – other than a self-assessment tax return which is submitted annually.
- Greater privacy than incorporated businesses, whose details can be found on Companies House website.

Sole Trader Disadvantages

- Sole traders have unlimited liability, which means there is no legal difference between themselves and their business – if the business gets into debt, the business owner is liable and could lose their personal assets.
- Raising finance can be tricky – banks and other investors tend to prefer limited companies. This can limit the expansion opportunities of sole traders.
- Tax rates on sole traders are not always as favourable as they are to limited companies. When you reach a certain level of earnings it may not be as lucrative to stay a sole trader.

Limited Company Advantages

- Unlike sole traders, a limited company is legally separate from its business owner, who has limited liability. This means your personal assets are not at risk – you only stand to lose what you put into the company.
- Once you have registered the company name with Companies House no one else can use it, in contrast to sole traders who are not offered the same protection.
- Limited companies can be more tax efficient – paying corporation tax rather than income tax on their profits.
- Limited companies also benefit from a wider range of allowances and tax-deductible costs to claim against its profits.
- It is easier to manage your income and personal tax position as a director of a limited company, which can lead to tax savings.

Limited Company Disadvantages

- Limited companies have more responsibilities. These are known as director's fiduciary responsibilities.
- Limited company paperwork can be time consuming and costly – an accountant is usually necessary. Added responsibilities include filing annual corporation tax returns and confirmation statements.
- Information about your business can be found on Companies House – details of directors and your company's earnings are required to be shown publicly.
- There is a fee to set the company up.

Choosing between a sole trader and a limited company

If you would like our help starting a new business, we can discuss and advise on the best legal option for you as well as helping with the set up / incorporation of the business. Both structures have their unique risks, so it is worth while seeking professional advice and not rushing the decision.

Simply call **020 3915 8585** or email us **enquiries@lkassociates.co.uk** and our team will guide you step by step through the process.