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Sole Trader or Limited Company?

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This is something that lots of people ask about. Always get professional advice (you could book a free one hour consultation with us!). To give you some guidance though, here is a quick comparison of the differences

Sole Trader

Limited Company

Debts and liabilities	The sole trader is personally responsible for all debts and liabilities of the company.	Debts are limited to what the company owns – shareholders or directors do not have personal responsibility.
Company formation	The sole trader must register with HMRC as self-employed.	A limited company must be registered with Companies House.
Ongoing obligations	The sole trader must complete the 'self-employment' pages of the self-assessment tax return each year. Must register as an employer if any staff are employed.	Deliver a set of accounts each year. Complete an annual return. Register as an employer if the directors are paid a salary. File a company tax return.
Taxation	The profits of the company are taxed through the sole trader's personal tax regime.	The limited company must pay Corporation Tax on any profits. If the directors draw a salary, then this is taxed in the normal way through their personal tax code. If directors receive dividends, then these are also taxed at dividend rates.
National Insurance	The sole trader must pay class 2 National Insurance Contributions, and then potentially class 4 contributions if the profits of the company reach a certain level.	The limited company must pay Employers National Insurance contributions for any members of staff. If the directors draw a salary, then they will also pay Employee class 1 contributions.
Expenses	Various business expenses can be claimed – see our factsheet on expenses.	Various business expenses can be claimed – see our factsheet on expenses.

