

Limited company or Sole Trader

Which is right for me?

Long before you start trading, it is vital to have examined the options open to you in trading entity. Which is best for your situation, which is best for tax savings and are any options going to cause you problems later?

Limited company or Sole Trader

Which is best?

Well it all depends on your situation, so let's take a look at the basic differences and the pros and cons of both.

What is the difference in a nutshell?

A SOLE TRADER is the most common way for people to be self employed with around 60% of UK businesses being traded as a sole trader. Trading as a sole trader means that you and your businesses are one and the same. Your business profits are *your* earnings and are taxed as such, on the other side of the coin, your businesses debts are *your* debts.

A PARTNERSHIP is less common with around 7% of businesses trading this way. Put simply, a partnership is the same as a sole trader, but with the right to profit and responsibility for debt split between partners.

A LIMITED COMPANY is a created trading entity that directors are responsible for and can be employed by.

This can provide a level of protection for directors from debts if the business gets into serious difficulties. Some suppliers or landlords will require a personal guarantee from a director though. As we'll look at later though, there are also several legal responsibilities directors must adhere to (including personal financial liability if acting inappropriately) and some of your companies trading figures are made public.

TRADING AS A SOLE TRADER

PRO

- ✓ Easy to set up, just apply for a UTR (Unique Tax Reference)
- ✓ Tax is simple as your business profits are all yours and taxed as such through your self assessment.
- ✓ Your accounts are not a matter of public record
- ✓ It is pretty easy to change to a limited company at a later stage

CON

- ✗ Personal liability. Legally, there is no separation between you and your business. This means that any debt your business incurs, is yours. In the worse case scenario, your personal assets could be taken to pay business debts.
- ✗ If you are profitable, a sole trader will usually pay more tax than a limited company. This is because the tax rates for individuals (sole traders) and limited companies are different. Limited companies pay a set 19% corporation tax on profits, whereas an individual pays more, dependant on the earning bracket they fall into ([check the current income brackets](#)).
- ✗ Raising finance could be harder. Banks are more happy lending to limited companies due to the transparency of accounts.

TRADING AS A LIMITED COMPANY

PRO

- ✓ Limited liability. This means that there is a legal distinction between you and your business. This allows your personal assets a level of protection.
- ✓ Your company profits are taxed differently. Instead of being treated as personal earnings, you pay corporation tax. This is at a more favourable rate so a profitable business will often pay less tax as a limited.
- ✓ Easy to set up, you can do it yourself through companies house or [we can support you and make the application on your behalf](#)
- ✓ Protected trading name. Once your company is registered with companies house, no one else can use that trading name. [You can check if your preferred name is available.](#)
- ✓ Finance. Many lenders prefer to lend to limited companies as they have more transparent accounts. However be aware that conditions such as personal guarantees from directors may be required.
- ✓ A limited company can be sold. Your company can be made an asset in its own right.

CON

- ✗ Lack of privacy. Basic details on directors and filed accounts are a matter of public record.
- ✗ Not everyone can be a director ([check here](#)).
- ✗ Some accountants charge more (we don't!).
- ✗ Directors and companies are bound by certain trading rules and need to keep specific records.

Further support ...

As specialists in business services to the hospitality sector, Roslyns can help every step of the way. Just click or prod your way to knowledge!

What taxes will my hospitality business pay?

How can I pay less tax?

What about my own income and taxes?

What do I need to do when employing staff?

Is stocktaking important in a hospitality business?

I've another question about hospitality business?

Links to the official government advice

[Setting up as a sole trader](#)

[Setting up a limited company](#)

[Business taxes](#)

[Personal Taxes](#)

[Employer taxes](#)

Please note: These guides are based on the 2020/21 tax year and are intended to outline the basic aspects of the topics addressed. Please take advice based on your specific situation and business. Contact us on support@roslyns.co.uk