

What's the difference between a sole trader and a limited company?

Sole trader or limited company? Check out our definitions, compare the advantages and disadvantages and find out which business structure best suits your needs.

Every business - no matter how big or small - must have a legal structure, with the bulk choosing to be either a sole trader or a limited company. An estimated 3.4 million operate as sole traders, with 1.9 million operating as limited companies – so what is the difference between the two? And which could be the best fit for your business?

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 out there - which is probably why it's the most popular – and you can set up as one via the [GOV.UK](https://www.gov.uk) website (you'll need to do this for tax purposes).

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's run by just one person, acting as shareholder and director.

Pros



- Easy to set up and relatively little paperwork, other than an annual self-assessment tax return.
- Greater privacy than incorporated businesses, whose details can be found via [Companies House](https://www.companieshouse.gov.uk).



Cons



- Sole traders have unlimited liability, as they're not viewed as a separate entity by UK law. This means that if the business gets into debt, the business owner is personally liable. As such, sole traders could lose personal assets if things go wrong.
- Raising finance can be tricky, as banks and other investors tend to prefer limited companies. This limits the expansion opportunities of sole traders.
- Tax rates on sole traders aren't always as kind as they are on limited companies. When you reach a certain level of earnings, it might not be quite as tax efficient to remain a sole trader.

- Unlike a sole trader a limited company has the benefit of limited liability, as incorporation forms a legal distinction between the business owner and their business. This means that personal assets aren't exposed – you only stand to lose what you put into the company.
- Broadly speaking, limited companies stand to be more tax efficient than sole traders, rather than paying Income Tax they pay Corporation Tax on their profits. In addition to this, there's a wider range of allowances and tax-deductible costs that a limited company can claim against its profits
- Once you've registered a company name nobody else can use it, in contrast to sole traders who aren't offered the same protection.



- Life as a limited company brings added responsibilities. These come in the form of what's called the director's fiduciary duties, which outline what a limited company director must do legally. You'll need to file a yearly annual return for one, as well annual accounts.
- Due to these added responsibilities **becoming a limited company** can be more costly and time-consuming, as you'll need to engage an accountant to assist you. You'll need to pay a fee to incorporate too check out our guide to setting up a limited company to learn more.
- In contrast to sole traders, information on your business can be found via Companies House, details on directors and financial information about your company are publicly available required to be shown publicly. This sort of transparency may not appeal to all.



01483 802 892



www.chadsan.com



enquiries@chadsan.com