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ACCOUNTING IN THE CLOUDS

# Sole Trader vs Limited Company

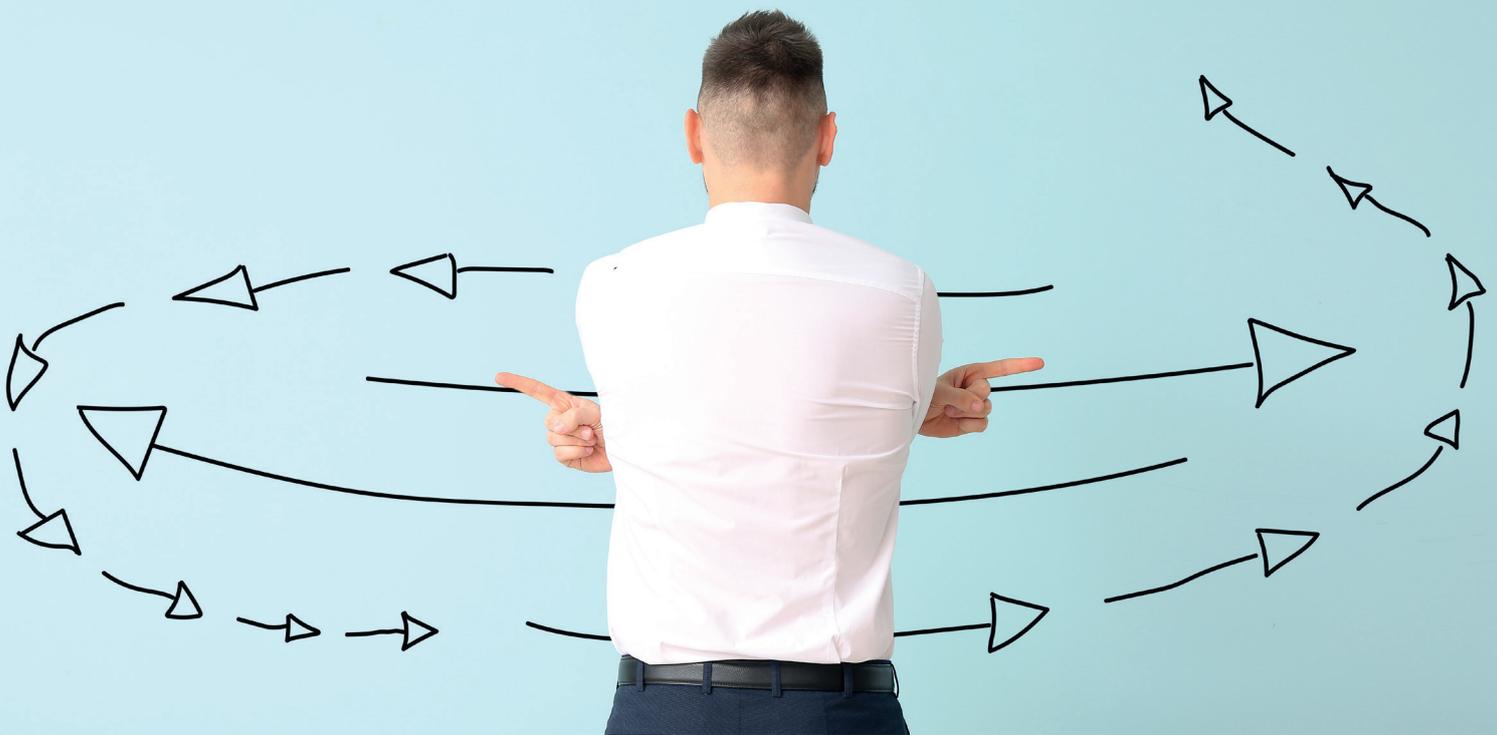
The differences explained

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# What's best for your business?

We've put together this handy guide to explain the different rules and responsibilities around running your own business, so you understand which route is best for you.



## When to make the decision?

A lot of entrepreneurs continue to be employed at a PAYE job whilst growing their own business in the evenings and on the weekends. But as soon as you earn more than £1,000 you'll need to register with HMRC.

Setting up a new business means you need to decide on a legal structure and choose whether being a sole trader or creating a Limited Company (LTD) and becoming Director of the LTD is best for you.

# What is a sole trader?

Sole traders, set up, run and own the business as an individual. UK law sees the business and person as the same entity, so if the business goes into the debt, the individual is responsible. This option is the simplest to set up and requires the least amount of paperwork. You just tell HMRC you're self-employed and register to file a self-assessment tax return each year.

The self-assessment will show all the money you made vs all of your expenses and HMRC will determine how much tax and National Insurance you'll need to pay. In addition to the self-assessment, it's your responsibility to keep a record of all your business sales and expenses for at least 5 years.

Tax rates for a sole trader aren't as generous as for a LTD, so when your turnover reaches a certain level, it's often most tax efficient to change to a LTD.

It's a common misconception that sole traders must always work alone, when in fact you're able to employ people to help. This would involve becoming PAYE registered with HMRC and deducting tax and National Insurance from your employees' pay.





# What is a Limited Company?

A Limited Company (LTD) has a separate legal identity to its owners, even if there's only 1 person owning and running the company. This means that the company's assets and liabilities are completely separate from your own personal finances, therefore your personal assets are not at risk.

A person who runs/manages a LTD is always referred to as a Director, you can have as many Directors as you want, all of which will have responsibility over the company.

As well as Directors, you also have shareholders. Shareholders own and control the LTD and are entitled to profits the company makes. A Director can also be a shareholder.

Because the structure of a LTD is more complex than a sole trader, there are more filing responsibilities involved.

Along with the self-assessment tax return (personal tax on your earnings), an annual set of accounts are required. These will outline all of the business's turnover and expenses to determine how much corporation tax is owed to HMRC.

You'll also have to provide a confirmation statement every year. This is an overview of the business and explains what it does and who is involved.

You may also need to consider registering the company for VAT and PAYE depending on your LTD company's individual circumstances.

It's your responsibility to keep business and accounting records for at least 6 years and you may face a fine if this isn't done.

# What are the Main Differences?

The main difference between a LTD and sole trader, is that a sole trader is personally responsible for the business and it's debts, whereas the LTD Director has more legal protection and won't be at risk of losing personal assets to the business.

There's much more paperwork involved with a LTD, but if your earnings are high, a sole trader is likely to pay more tax to HMRC.

Finally, sole traders don't have to have their business listed on Companies House, whereas a LTD will have their name, DOB and address or Accountant's address publicly listed. Both options come with pros and cons so it's really dependant on what's best for you as an individual and where you see the business heading.



To learn more about whether being a sole trader or a Limited Company is best for your business, speak to a member of the team today. Call: 01625 300 300.



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