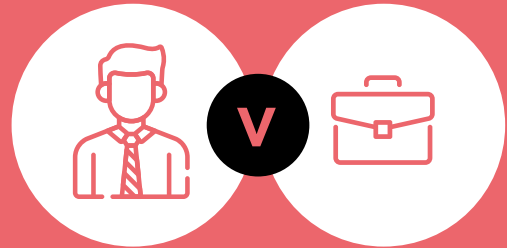# Setting up a business

Sole Trader vs Limited Company: Which is Right for You?

Deciding whether to operate as a sole trader or set up a limited company is a crucial step when starting a business. Both structures have their advantages and disadvantages, so it's important to understand which suits your needs best.

SOLE TRADER

Pros:

- **Simple and straight forward:** easy to setup and manage with minimal paperwork
- **Tax-free personal allowance:** You can earn up to £12,570 before paying income tax (2025/26 tax year). Income tax is then charged at 20% up to £50,270.

Cons:

- **Higher tax rates on higher income:** Profits above £50,270 are taxed at 40%, and profits over £125,140 are taxed at 45%
- **National Insurance Contributions (NICs):** You pay Class 2 NICs (£3.45 per week) and Class 4 NICs (6%) through self-assessment. These costs increase as your profits grow.

LIMITED COMPANY

Pros:

- **Lower tax rates:** Profits are subject to Corporation Tax, which is generally lower than higher income tax rates.
- **Tax-efficient dividends:** Shareholders can take dividends, which are taxed at lower rates than personal income tax.
- **Better tax planning options:** Profits can be retained within the company to manage tax liabilities efficiently.

Cons:

- **More administration:** It is a requirement to file annual accounts with Companies House and submit Corporation Tax returns to HMRC.
- **Double taxation:** Profits are taxed at the Corporate level, and dividends are taxed again when distributed to shareholders.
- **Employer NICs:** If you pay yourself a salary, employer NICs must be considered to ensure entitlement to state pension and benefits.

Which Structure is Best for You?

There's no one-size-fits-all answer. The right choice depends on your income level, business goals, and tax considerations. Consulting an accountant can help you make the best decision for your situation.

WR Partners®

Accountants, Tax & Business Advisors

Starting your business: What do I need to do?

Once you've decided on the right structure for your business, here's what you need to do next:

1 Register your busines

Sole trader - You must register with HMRC for Self Assessment before the deadline.
Limited company - Incorporation with Companies House is required.

2 Keep financial records

Maintain accurate records of your income and expenses. Consider using accounting software to simplify this process.

3 Understand your tax obligations

For both options tax will be payable on profits. If the turnover exceeds the VAT threshold, you may need to register for VAT.

4 Get the right insurance

Depending on your business type, you might need specific insurance, such as public liability insurance.

5 Open a business bank account

Keeping business and personal finances separate is advisable for better financial management.

6 Submit tax returns on time

File your tax return annually and pay any tax owed by the deadline.

7 Seek professional advice

WR Partners can support you with tailored advice and guidance to ensure your business runs smoothly from day one.