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Safety in numbers

A GUIDE TO CHOOSING BETWEEN SOLE TRADER OR LIMITED COMPANY

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It is much easier, quicker and simpler to set up as a Sole Trader than a Limited Company. However, you are personally liable if things go wrong and some larger companies might not work with a Sole Trader. If you start to earn a decent income you will pay more personal tax and National Insurance than if you were a Limited Company.

A Limited Company is the most tax-efficient way to run a business. If your company runs into trouble, your financial liability is limited, which usually means your personal assets are safe. However, it is more complicated to set up as a Limited Company. It would be wise to use external help to do this to ensure you stay on the right side of Companies House and HMRC.

SOLE TRADER

THE BENEFITS

- Sole Traders have fairly simple accounts. Individual traders like the simplicity of it, especially if they don't intend to have employees or register for VAT.
- It is not necessary to have a separate business account at the bank.
- If you work from home, you will probably be able to offset some of your home costs against the business.
- Professional accountancy advice or a bookkeeper is normally required to prepare personal tax returns, but it is far less complex and will not cost as much as it would for a Limited Company.
- There is no requirement to make information about you (or your business) public.
- Because there are no other partners, you can run your business in any way you see fit.

THE DISADVANTAGES

- Sole Traders have unlimited liability, and the owner is personally liable for the business' debts. This may be fine at the beginning, but if the business grows substantially it could become quite risky.
- In most cases, you will end up paying more personal tax and National Insurance than if you set up a Limited Company.
- It can be hard to raise funds from the bank or other lenders when operating as a Sole Trader. The business may appear less established and so less able to repay loans compared to a Limited Company.
- It is harder to sell a sole trade business, because the separation between your own assets and the business is blurred, and often it is considered less well established than a Limited Company.

LIMITED COMPANY

THE BENEFITS

- A Limited Company has a separate legal identity from the owners (Shareholders) and Directors. Therefore, the Shareholders normally have no personal liability beyond the amount paid for their shares - as long as they haven't done anything illegal. However, if you have given any personal guarantees for loans etc. these still apply.
- There is an element of prestige in forming a Limited Company. Rightly or wrongly, this leads to the perception that a Limited Company is more trustworthy and professional than a Sole Trader.
- Because the company owns the assets of the business (e.g. equipment, buildings, etc.), it is usually much more likely that you will be able to sell a Limited Company than a sole trade business.
- You could raise funds from investors by issuing shares.
- There is an opportunity to give shares to others, such as family members, so ownership could be passed on in future years. There could be potential tax benefits to this, too.
- There is much more opportunity to minimise your tax and National Insurance payments when you own a company.

THE DISADVANTAGES

- There is less privacy than for a Sole Trader. As a Limited Company, members of the public will be able to see the identity of Shareholders and Directors, and details of your company assets.
- Administrative expenses will be much higher than for a Sole Trader. To comply with company law and company tax rules, there is a lot of paperwork that needs to be prepared and submitted by strict deadlines.
- Professional accountancy services are normally required to assist with the preparation and filing of accounts and tax returns.
- If there is only one employee and they are working for just one client, there are some tax implications. This complicated area will need professional advice before setting up as a Limited Company.

WHAT RIFT ACCOUNTING DOES FOR YOU

If you're self-employed, RIFT Accounting can protect you from the dangers and help you seize the opportunities. We can help you to fill out the forms to register for Self Assessment and complete your return on time every year for you. We'll help you set up your National Insurance payments and register you for VAT if you need us to. We can even deal with HMRC on your behalf as your official agent.

If you're ready to take the next step and become a Limited Company, we can do even more. We'll get you set up at no cost, and register your company at Companies House. We'll put together all your statutory accounts and complete your yearly Company Tax Return. As your agent with HMRC, we can even complete and file your Annual Return each year at Companies House, and handle the Self Assessment returns for you and all your company's Directors.

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