

# Sole trader / self employment vs limited company

When starting out in business, there are typically two routes taken by budding entrepreneurs e.g. via a Self employment or Sole trader status or using a limited company structure.

Being self employed or operating as a sole trader offers a great deal of freedom, as you can avoid the extra administrative burden and costs of setting up a limited company, but on the other hand there are no legal protections if something goes wrong, i.e. it is all on your own shoulders.

Where the business remains a relatively small undertaking with no need to take on staff and with a limited income, operating as a sole trader is usually preferable to a limited company.

Ultimately deciding on the right structure doesn't only depend on the size of your current business activities, but also on any longer term plans you may have for the development of the business including:

Potential for new business partners.

The type of clients or sector that you are operating in.

Any exit (or retirement) plans your may have for the business.



# Self employment unlimited freedom + unlimited responsibility

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## Advantages

**More freedom, less admin:** It's simpler in terms of paperwork as there are less regulations and admin requirements in comparison with operating via a limited company.

**Saves money:** It is a less expensive option for a startup in terms of professional fees.

**Less deadlines:** There are less deadlines, legal and record keeping responsibilities to worry about.

**More Flexibility:** Being self employed can be a great way to "test" a business idea and prove that the business model involved works!

**Better Cashflow:** Income tax is paid to HMRC in tranches after the end of the tax year.

## Disadvantages

**Clients:** There may be a limit to how big a client you can attract as self employed.

**Income Tax:** You have less flexibility on managing your total tax liability in years of good trading.

# Limited company unlimited opportunity + limited responsibility

## Advantages

**Unlimited opportunities:** Many larger businesses prefer to work with limited companies compared to self employed businesses.

**Limited Liability:** If things don't go quite according to plan and your business fails, your financial liability is usually limited to your investment in the company itself.

**More pay:** Another key advantage is the opportunity to take home more earnings through the use of salary and dividends, which is not possible otherwise.

**Easier to borrow money or obtain funding:** Banks, investors and other funders are unlikely to provide funding to a business that is not operating as a limited company.

## Disadvantages

**Fees:** With the additional legal and tax compliance associated with a limited company, your accountancy fees will be higher.

**Admin:** You need to ensure that your personal and business transactions are kept entirely separate from each other to avoid confusion.