



Setting up a new company?
SHOULD I BE A LTD COMPANY
OR SELF EMPLOYED?

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You mentioned you may consider becoming a Limited company. Please see attached some general notes for becoming a Limited company and below advantages/disadvantages versus being a sole trader kindly noting we can chat through fuller on the day.

A limited company is really only tax beneficial taking everything into account (differential in accountancy fees etc) once profits exceed circa £50,000.

That being said we have listed some general advantages and disadvantages for both options below for your information.

SOLE TRADER

ADVANTAGES

- Easy to set up and straightforward to run.
- All you need to do is file an annual tax return with HMRC and pay any tax due.
- Lower accountancy fees/other costs (bank charges etc).
- No requirement to file accounts annually with the Companies Registration Office.
- Closing down the business may be easier than closing down a Limited company.

DISADVANTAGES

- Unlimited liability- if things go wrong the buck stops with you. You are liable for all or any of the debts of the business.
- A sole-trader may lack credibility when dealing with customers depending on your client base.
- Your business name is not protected under company law.
- Payments on account are often higher.

LIMITED COMPANY

ADVANTAGES

- Limited liability- if the business goes pear-shaped, for most reasons, the liabilities of the company remain with it - unless the directors/ shareholders have given personal guarantees to creditors (or have committed serious issues like fraud), they are not liable for the debts of the business.
- May look more credible to customers than a sole trader.
- Your company name is protected - nobody else can register the same name with the Registrar of Companies.

DISADVANTAGES

- More statutory rules and regulations to be adhered to.
- Less privacy - accounts can be accessed by the general public.
- Due to the level of reporting requirements, accountancy fees for companies are often higher.
- Closing down the business can be expensive - this can be done through liquidation or dissolution.

SO WHICH SHOULD I OPT FOR?

There are lots of things to think about, and most important of all is your own personal preference. You might want the simplicity of being a sole trader rather than a limited company, or you might prefer the security of having 'limited liability'.

- What sort of clients you will be engaging with/pitching to (a limited company sometimes gives a more commercial feel to the end client).
- Your future plans to grow the business.
- What level of commercial risk you will be exposed to?
- Whatever path you choose, it's important to understand that your decision isn't final. It is always possible to change at a later date.

TAX PLAN AND THE NUMBER CRUNCH

Appreciating the most tax-efficient option comes down to how much the business profit is each year and the most effective way to extract that money. Also in the 1st year, you may need to take into account other incomes.

For example if a sole trader it is that profit to 5th April in the tax year as well as other incomes in the tax year. In this scenario, tax efficiency may be better suited for a limited company.

If limited company we would normally advise a commercial salary (£14,000) and the rest taken as dividends as normally the most tax-efficient option.

You are welcome to send us estimated profits and any personal taxable income from 6th April 24 and we can review.