



ICAEW Business Advice Service

Prepare for success

Sole trader or limited company?





Prepare for business

Decisions you take in the early years of your business can be the most difficult as well as the most important, particularly if you are a first-time entrepreneur.

Prepare for success

The **ICAEW Business Advice Service** experts will help you make those crucial first steps and then grow your business with confidence.



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businessadvice.service.com

Sole trader or limited company?

When you're setting up a new business, one of the major decisions you have to make is the type of company it will be. Each different format has different implications for tax, ownership and responsibility. Here we outline the main points of each company structure.

Sole trader

- Setting up in business on your own gives you complete control and fewer administrative burdens.
- But there are implications for tax and raising finance.
- As you have unlimited liability, you could risk personal loss if something were to go seriously wrong.
- Sole traders include an annual self employment return with their income tax return and pay income tax and national insurance contributions on the profits.

Partnership

- If two or more people run a business together as partners, they share profits, losses and unlimited legal liability.
- It is a common formula, but it is essential to define the rights and responsibilities of partners and to set them out in a partnership deed. This requires special accountancy and legal skills.
- All partners include an annual self employment return with their income tax return as well as a partnership tax return (showing how profits were divided between the partners).
- Partners pay income tax and national insurance contributions on their share of the profits.

Limited company

- A limited company is a legal entity separate from its owners. Ownership can be changed or extra capital raised through the selling of shares, without necessarily affecting the management of the company.
- However, there are a number of additional legal requirements with limited companies which can substantially add to the time and money spent on administration, so the costs and benefits of this approach need careful consideration.
- Details of the directors, company secretary and shareholders must be filed at Companies House.
- Companies file a corporation tax return with HM Revenue & Customs (HMRC) which summarises its annual trading results and pays corporation tax on the taxable profits.
- Companies must submit annual accounts to the Registrar of Companies (also known as Companies House), although small companies don't need to file their profit and loss account.
- Companies will have the option to prepare "abridged accounts" for shareholders, but all shareholders must agree.

Limited Liability Partnership (LLP)

- Unlike in a standard partnership, the liability of the partners in a LLP is normally limited to the amount of their partnership commitments.
- Requirements for accounts, audit, returns to Companies House, winding up and insolvency all follow normal company law rules.
- However, taxation follows the rules for partnerships ie, partners pay income tax and national insurance contributions on their share of the profits.

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>> Useful websites

[gov.uk/browse/business/setting-up](https://www.gov.uk/browse/business/setting-up)

[gov.uk/business-tax/corporation-tax](https://www.gov.uk/business-tax/corporation-tax)

[online.hmrc.gov.uk](https://www.online.hmrc.gov.uk)

[gov.uk/government/organisations/companies-house](https://www.gov.uk/government/organisations/companies-house)

If you need further help to clarify which legal format is best for your business, a free initial discussion with an ICAEW Chartered Accountant is a good place to start. Visit [businessadvice.service.com](https://www.businessadvice.service.com)

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Summary

- Forming a limited company is largely for tax reasons. If your profits exceed £40,000 or could go even higher, you should consider becoming a limited company.
- A limited company is also the best vehicle if you think you may want to sell a stake in the business in the future.
- You can start your new company as a sole trader, then introduce partners at a later stage, once the business is up and running and successful.

Prepare for business, prepare for success.

ICAEW Business Advice Service

The ICAEW Business Advice Service (BAS) provides professional advice for start-ups and owner-run businesses.

As well as practical help online in the form of white papers, short PDFs and blog articles, we enable businesses to receive an initial consultation at no charge from an ICAEW Chartered Accountant.

ICAEW is a world leading professional membership organisation that promotes, develops and supports over 144,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

ICAEW Chartered Accountants are the biggest source of business advice, reaching over 1.5m businesses from more than 20,000 offices across the UK.



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