



## Limited Company vs Sole Trader

One of the most common questions we, as accountants, are asked is "Should I trade as a sole trader or a Limited Company. You may like to read our other article "Business Structures – Which Should I Use" in conjunction with this document. In this table, we have simply shown a comparison between the two and the major differences "at a glance". Ultimately, how you trade is entirely up to you.

Limited Company	Sole Trader/Partnership
<p>Companies are governed by the Companies Act and regulated by Companies House, a Governmental department, A company must:-</p> <ul style="list-style-type: none"> <li>• Keep accounting records</li> <li>• Produce audited accounts if the turnover exceeds £5.6m</li> <li>• File accounts and an Annual Return with the Registrar of Companies – this information is available to the public</li> <li>• Keep statutory books</li> </ul>	<p>Sole traders and partnerships are not required by law to have annual accounts nor file accounts for inspection. They do have an obligation, however, to keep "proper" accounting records in order to file an accurate self assessment tax return as required by HM Revenue and Customs. Often, Sole Trader Accounts are asked for by lenders in order to determine whether to lend money or not</p>
<p>Companies may have a greater borrowing potential; they can use current assets as security by creating a floating charge</p>	<p>Sole traders and partnerships are unrestricted in the amount and purpose of borrowing money but cannot create floating charges and are essentially personally liable for the loan meaning that their homes or personal assets are at risk if they default on payments</p>
<p>Shareholdings in a company are generally transferable thereby allowing the ownership of the business to change without affecting the continuing trade of the business</p>	<p>When a sole trader ceases to trade, the business dies with them and, although it cannot be sold as is, the assets, name and customer base can be sold to another person or company</p>
<p>A company status can provide some respectability and gives the impression of a sound organisation but this is not guaranteed</p>	<p>Sole trader/partnership enterprises do not carry the same prestige as incorporated businesses</p>
<p>The tax advantages for a director/shareholder are more significant and Corporation Tax is paid 9 months after the company's year end</p>	<p>For the sole trader, income tax is payable 9 months after the year end (31<sup>st</sup> January) however, they are also required to pay 50% of this tax again at the same time on account and the 2<sup>nd</sup> 50% 6 months later by 31<sup>st</sup> July with any balance owing by the 31<sup>st</sup> January the following year</p>
<p>The differences between the two entities regarding taxation is quite complex and cannot really be shown here – if you would like further clarification or advice on this, the please give our office a call.</p>	
<p>Profits are charged at 21% up to £300k (2010/11)</p>	<p>Profits are charged at 40% on taxable income over £37k and 50% over £150k (2010/11)</p>
<p>Companies will suffer Employers National Insurance Contributions on the salaries of directors and staff at 12.8% above the LEL (2010/11)</p>	<p>Sole traders/partnerships will pay Class 2 National Insurance Contribution at £2.40 per week and also Class 4 profits above the LPL at 8% (2010/11)</p>