



Switch to Online Accountancy

**Understanding the best structure  
for your business**



# What's the best business structure for me?

When it comes to starting your own business, one of the many decisions you need to make is what legal structure the business will take. However, this is not a decision to take lightly as a wrong choice now could cost you time and money later.

Typically, a new business owner will need to decide between a sole trader and limited company business. There are other alternatives, but let's stick to the more frequently used.

When deciding upon the structure you need to consider not only the reporting requirements of the structure but also your own strengths and weaknesses and commitment to running your new venture.



# Why choose a sole trader structure?

Being the easiest, quickest and less tax intensive, this option is a no brainer for any business that wants a simple approach to tax accounting or is too frightened by the limited company route.

Typically, sole traders are smaller businesses run by one person – ok, we are generalising a tad. As it's the owners business they decide how to run it or how much money to take out.

Sole traders pay taxes on the total profits they generate in their business.

Taxes are paid via self-assessment and will include other sources of income that an owner receives, such as employment or rental property.

## Benefits

- Quick and simple set up – phone call to HMRC will do it.
- Requirements for accounting are less complex.
- Self-Assessment tax is arguably the easiest tax to calculate.
- Great for short term self-employment or 'hobby' income.

## Drawbacks

- Above £15k profits then generally more tax to pay than limited company.
- Other income can push tax into 40% bracket.
- Perceived as less professional and so larger firms may not work with you.
- No matter how much you draw out as wages full profits are taxed regardless.
- Personally liable for any business debt.

# Why choose a limited company?

Nowadays, setting up your own limited company is just as quick and easy and relatively inexpensive. However, the easiness of the setup is misleading and care should be taken if you do not understand the annual requirements of a company.

There has been a glut of one-man-band limited company's set up in recent years to benefit from the potential tax savings over a sole trader. Generally speaking, a business earning profits of over £15,000 per annum will find their tax liability lower operating through a limited company.

However, the various reporting requirements, rules and regulations are complex to understand and mistakes in the operation of a company can lead to paying more tax than necessary or even penalties.

As a growing business generating increasing profits or, if the business owner has other income, a limited company is a very attractive option.

## Benefits

- Tax savings can be significant over a sole trader structure.
- Perceived as a more professional operation.
- Limited liability protection over director's personal assets.
- Clearer separation between personal and business activity.

## Drawbacks

- More rules, regulations and paperwork increases complicity of business.
- Not ideal for short term or on-off work.
- Increased costs in running the business and annual returns must be done.

## So, which one?

One of the main considerations you should take into account is your own ability to manage finances, paperwork together with your other commitments. Running a limited company does take more time, is inflexible when taking out wages and can lead to higher taxes or penalties if not operated correctly.

If you're the sort of person that hates admin work or doesn't think about money or finances then a sole trader structure is probably the safest option. Sure, you'll take a hit on the tax but if you end up taking more money out of a limited company than you are allowed, any tax savings are wiped out and you'll end up paying more!

However, if paperwork and finances don't frighten you and you are making sufficient profits, then a limited company will be a great tax saver in the long run.

## Help and Support

As with any business decision, taking professional advice is always a wise option to ensure you fully understand the options and you take the right one based upon your circumstances.

At Clever Accounts, we don't just give generic advice but try to understand your specific needs and tailor a package around how you want to run a business. We don't just want to give you one choice regardless of whether it is right or wrong for you, but we will give you an opinion on the range of options available to you.