

HANDY GUIDE

Sole Trader versus Limited Company

Being a sole trader is simplicity itself, there are no set up fees, administration and record keeping is relatively straight forward and any profits you make are yours to keep. However, any debts that the business has, makes you personally responsible for repayment.

A statement of income and expenditure is required to show your profits earned during the year. Each year you will be required to complete and submit an income tax self assessment.

As a sole trader, you will be liable to pay income tax on all of your profits, in addition to Class 2 & Class 4 National Insurance Contributions.

Why have a company?

A limited company is a separate legal entity in its own right, meaning that you and the company are two separate legal entities. This means that the company's finances are also separate from your personal finances.

A company is owned by shareholders, so if you own 100% of the company, ultimately all the profits go to you. If you jointly own the company, profits will be distributed dependent upon the share split. You are not responsible for the debts of the company unless you have provided a guarantee to repay.

The Companies Act lays down a series of responsibilities upon Directors as to how they should conduct the running of a company. We advise you to read up on the Companies Act 2006.

A Company must be registered at Companies House in the UK, or Companies Registry in the Isle of Man for Isle of Man companies. A Company must file an Annual Return every year due on the date of the anniversary of incorporation; this is confirmation of Directors, Secretary, Registered Office and share capital structure of the Company.

A company needs to file a set of statutory accounts at Companies House which must be in a prescribed format.

At the end of the day you do a job in order to maximise your own financial return. Under existing legislation a well-managed limited company provides you with the most appropriate structure for achieving this end.

A limited company facilitates tremendous flexibility. You can receive payments by a mixture of salary and dividends, thereby significantly reducing both employer's and employee's National Insurance contributions.

The key disadvantages of a limited company are:

- Incorporation costs;
- Preparation of accounting records;
- Administrative responsibilities;
- Legal responsibilities (e.g. VAT, PAYE, National Insurance, Statutory Compliance);
- Winding up costs.

In conclusion, of the two options, the limited company method, when run effectively, will enable you to achieve the maximum financial return.



Why Purple?

Your decision to appoint PurpleAccounts as your Accountancy, Administration and Taxation Service places a great deal of trust in our organisation. Our role is to ensure that all the necessary tasks to comply with limited company status are carried out in a timely and efficient manner. Our service reduces the amount of administration time required by you to complete your director responsibilities and duties.

We offer a range of services that can be tailored to suit individual requirements. We have qualified professionals in our team, which along with our tried and tested systems and administrative support, allows us to provide a service of the highest possible quality.

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