



62 The Street  
Ashted  
Surrey  
KT21 1AT

T: 01737 844322 F: 01737 844162  
Email: david@dbeckman.com

## David Beckman & Co Ltd

Chartered Accountants & Chartered Tax Advisers

### Sole trader or a Limited Company?

One of the key challenges when making the decision to go freelance is to choose between **becoming a limited company** or simply **setting up as a sole trader**. Whilst there are benefits to going limited, many freelancers choose the sole trader option - primarily because they don't want the hassle or the legal commitments which come with a limited company.

We are often asked the question 'Should I form a limited company?' but the reality is that there is no easy answer. Everyone's situation is different, and what's right for one person might not be right for another. As well as the obvious issues of tax and **national insurance** contributions, there are many other factors which might influence your decision. For example:

- The type of business you run, or are thinking of running
- What kind of administrative support you have, if any
- What your turnover is and how much profit you make
- Your future plans to grow the business, or not
- What level of commercial risk you will be exposed to
- Whether customer perception matters
- What plans you have, or would like, for pensions and retirement

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'. In order to make that decision you must have all the information at your fingertips, which is where we can help you.

#### Advantages and Disadvantages

As with all major business decisions, there are pros and cons to each option. Here are some of the key advantages and disadvantages of freelancing as a sole trader, rather than through a limited company:

#### **Sole trader / self employed** – a life more simple' and an easy way to start in business

- No set up costs
- No limited company formation fees
- Lower priced accountancy fees
- Less government departments to liaise with
- Just submit a tax return once a year (although accounts are often prepared as well)
- Higher personal risk - you will be personally responsible for the business' debts, so your personal assets can be at risk
- Less opportunities for tax planning – for example, if you make £60k this year and only £10k the next, you will still pay the higher rate this year as there is no opportunity to save untaxed money and remove the funds in leaner years. See our limited company illustration for an example of how a limited company gives improved tax planning options.

#### **Limited company** - a life 'slightly more complicated', but necessary for some!

Some customers, usually PLCs or larger limited companies, will only work with other limited companies which may mean you have to go limited

- More costly starting up as you will have to pay to **form a limited company**
- You have to file your accounts at Companies House each year, which will be on public record
- You also have to file accounts, company tax and corporation tax calculations with HM Revenue and Customs every year
- Accountancy fees are generally more expensive
- You are separate from the company, so your personal possessions may not be at risk, unlike if you're self employed
- You may appear to be a little more professional
- Better tax planning opportunities - for example if you make £60k this year but only take £40k, you leave the other £20k in the business, thereby keeping under the higher rate tax threshold. If you then only make £10k the year after, you will still be under the higher rate tax threshold as you will have only withdrawn £30k (£10k from this year and the £20k you left the previous year).



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TAX ADVISERS

Registered in England Registered Number: 04744238  
Registered Address: 62 The Street, Ashted, Surrey, KT21 1AT

Registered with the Chartered Institute of Taxation  
as a firm of Chartered Tax Advisers

Director: **David John Beckman**  
MA (Cantab) ACA CTA FPC

VAT No: 812 3468 46

