PURPLE RIVER SUPPORT SERVICES

SOLE TRADER VS LIMITED COMPANY COMPARISON

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When it comes to setting up your own business, you want to get started and sell your services or products. Very often, the admin around setting up a business isn't given a second thought until HMRC writes to you asking for your tax bill or, worse, sending you a penalty.

We often set up businesses without a thought about the most tax-efficient way to pay ourselves. Most of us have come straight out of employment, paying employee tax that someone else has set up for us. With this in mind, we have created the following table to help you understand whether you should set up as a sole trader or a limited company.

Sole Trader

Pros	Cons
Simple and quick to set up	Personally liable for business debts
Lower admin and accountancy costs	Less tax-efficient once profits exceed £35k–£40k
Easier banking and bookkeeping	May be perceived as less professional by corporate clients
Keep all profits (after tax)	Cannot easily split income with spouse for tax efficiency
Fewer regulatory requirements	Less attractive to some insurers or sponsors

Limited Company

Pros	Cons
More tax-efficient at £50k+ profit (via salary + dividends)	More complex setup and admin
Limited liability, your personal assets are protected	Higher accountancy and filing costs (typically £1.5k–£2k/year)
Can split income with a spouse/shareholder	Must meet Companies House and HMRC obligations
Potentially more professional image	Cannot withdraw funds freely, must follow legal methods (e.g. dividends)
Pension and investment tax planning is more flexible	May face "IR35" issues if doing coaching under certain contracts

Our Advice

If you're unsure, ask for free advice. What happens down the pub isn't always the best way for you. The UK has the most complex tax system in the world, we're happy to help make that a little simpler for you.

Contact us : Email Emma.williams@purpleriver.co.uk or call 07940 922990