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FREE GUIDE · 2026/27 · UPDATED OCTOBER 2026

Sole Trader or Limited Company?

How to choose the right structure for your business, with clear comparisons and worked examples

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Choosing between working as a sole trader and setting up a limited company is one of the biggest decisions you'll make for your business. It affects how much tax you pay, how much paperwork you have, your personal risk and how others see your business. There's no one right answer, and a limited company isn't always cheaper, so this guide sets out the facts to help you decide.

> *"I started Zen to make finance feel calm and clear for business owners. I hope this guide answers your questions, and if anything doesn't quite fit your situation, I'm always happy to talk it through with you."*
>
> **Ann Williams**
> Founder, Zen Bookkeeping & Advisory

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01 The two structures at a glance

Sole trader

- You and the business are the same legal person
- You keep all the profits after tax
- You are personally liable for business debts
- Simple to start: register for Self Assessment
- Profits taxed as your income each year

Limited company

- The company is a separate legal person
- Owned by shareholders and run by directors
- Shareholders' liability is usually limited to what they invested
- Registered at Companies House, with public records
- Company pays Corporation Tax; you're taxed on what you take out

Partnerships and limited liability partnerships (LLPs) are also options when two or more people go into business together. We can talk you through those too.

02 How each is taxed in 2026/27

Sole trader

Your business profit is added to any other income and taxed through Self Assessment:

	Rate
Personal allowance (first £12,570 of income)	0%
Basic rate (next £37,700)	20%
Higher rate (up to £125,140)	40%
Additional rate (above £125,140)	45%
Class 4 National Insurance on profits £12,570 to £50,270	6%
Class 4 National Insurance on profits above £50,270	2%

Income tax rates shown are for England, Wales and Northern Ireland. Scotland has different income tax rates.

Limited company

The company pays Corporation Tax on its profits, and you then pay personal tax on the salary and dividends you take:

	Rate
Corporation Tax on profits up to £50,000	19%
Corporation Tax on profits over £250,000 (marginal relief in between)	25%
Employer's National Insurance on salary above £5,000	15%
Dividend allowance	£500 at 0%
Dividend tax: basic / higher / additional rate	10.75% / 35.75% / 39.35%

03 Worked examples: who pays more tax?

These examples compare a sole trader with an owner-director who takes a salary of £12,570 and pays out all remaining profit as dividends. They assume no other income, no other employees and that all profit is taken out of the business.

Annual profit before tax	Sole trader: total tax and NI	Limited company: total tax and NI	Take-home: sole trader	Take-home: company
£30,000	£4,532	£5,597	£25,468	£24,403
£50,000	£9,732	£11,138	£40,268	£38,862
£100,000	£30,689	£34,790	£69,311	£65,210

Company figures include employer's National Insurance on the salary, Corporation Tax (with marginal relief where it applies) and dividend tax. Illustrative only, based on 2026/27 rates; they exclude the Employment Allowance, student loans, pension contributions and accountancy and running costs.

✦ What this shows

With the higher dividend tax rates from April 2026, taking **all** your profit out of a limited company now often costs more tax than being a sole trader. A company can still come out ahead when you **leave profits in the business** to reinvest (taxed only at 19% to 25%), pay into a pension through the company, share income with other shareholders, or need the protection of limited liability. That's why we always run the numbers for your situation.

04 When a limited company comes out ahead

The picture changes when you **don't need to take all the profit** out. Here is the same £100,000 profit, but the director takes a salary of £12,570 and dividends of £37,700 (staying within the basic-rate band), leaving the rest in the company:

£100,000 profit	Sole trader	Limited company
Total tax and NI paid this year	£30,689	£24,253
Money in your pocket	£69,311	£46,271
Profit kept in the company (already taxed)	–	£29,476

The company pays £6,436 less tax this year, and the £29,476 kept in the business can be reinvested, paid into a pension, or taken out in a later year when your income may be lower. Tax will usually be due when it's eventually taken out as dividends.

The pension advantage

A company can pay into a director's pension as an employer contribution. This is normally an allowable expense for Corporation Tax and isn't subject to National Insurance or dividend tax, making it one of the most tax-efficient ways to take money from a company. Contributions count towards the £60,000 annual allowance.

✦ Zen tip

The right answer depends on how much you need to live on, your plans for the money and other income. We model the options for you each year.

05 Beyond tax: the other differences

	Sole trader	Limited company
Personal liability	Unlimited: your personal assets can be at risk	Usually limited to the money you've put in, unless you've given personal guarantees
Set-up	Register with HMRC for Self Assessment	Register at Companies House, verify identity, set up PAYE and Corporation Tax
Ongoing admin	Annual tax return; Making Tax Digital quarterly updates if income is over the threshold	Annual accounts, confirmation statement, CT600, payroll, director's tax return, statutory registers
Privacy	Your details aren't on a public register	Directors, shareholders and accounts appear on the public register
Taking money out	Simple: the profits are yours	Through salary, dividends or loans, following the rules
Making Tax Digital for Income Tax	Applies if qualifying income is over £50,000 (from April 2026)	Doesn't apply to the company
Credibility	Fine for many customers	Some clients and larger businesses prefer to work with companies
Mortgages and finance	Lenders look at your tax returns	Lenders look at salary, dividends and sometimes retained profit
Accountancy costs	Usually lower	Usually higher, because there's more to do

06 Which might suit you?

A sole trader may suit you if…

- Your profits are modest, or you're just starting out
- You want to take all your profits out each year
- You want the simplest admin and lowest costs
- Your work carries little financial risk

A limited company may suit you if…

- Your profits are growing and you can leave some in the business
- You want limited liability for business risks
- You plan to bring in investors or share ownership
- Your clients prefer working with companies

Changing structure later

Many businesses start as sole traders and move to a limited company as they grow. When you incorporate, there are things to plan carefully, such as transferring assets, contracts and bank accounts, registering for PAYE and VAT, and the timing of your final sole trader accounts. We handle the switch for you.

✦ Zen tip

Don't form a company just because someone said it saves tax. Ask us for a side-by-side comparison using your real figures first. It's part of our free initial call.

07 Moving from sole trader to limited company

1. **Form the company**
   Register at Companies House, verify the directors' identities and issue shares.
2. **Register for taxes**
   Corporation Tax, PAYE for directors' salaries and VAT (a new registration or a transfer of your existing number).
3. **Open a company bank account**
   Move income and costs into the company's name from the date it starts trading.
4. **Transfer the business**
   Agree what the company takes over, such as equipment, stock, goodwill, contracts and customers, and at what value. Tax reliefs may be available.
5. **Update customers and suppliers**
   New invoices, contracts, insurance, licences and your website should show the company name and number.
6. **Close your sole trader records**
   Prepare final sole trader accounts to the date of transfer and tell HMRC you've stopped self-employment.

! Plan the timing

Transferring assets, goodwill and property can have Capital Gains Tax, Stamp Duty Land Tax and VAT consequences. Always take advice before you incorporate.

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How Zen can help

We compare the options using your own figures and goals, then set up whichever structure is right for you.

- Business structure advice
- Limited company formation
- Sole trader accounts and tax returns
- Making Tax Digital for Income Tax
- Salary and dividend planning
- Switching from sole trader to company

Book a free, no-obligation call

Tell us about your business and we'll explain how we can help, with a tailored fixed-fee quote for just the services you need.

CALL
01752 427280

EMAIL
info@zenbookkeepingandadvisory.co.uk

WEBSITE
zenbookkeepingandadvisory.co.uk

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