

A woman with voluminous curly hair is smiling broadly while holding a white mobile phone to her ear. She is wearing a dark red button-down shirt. The background is a bright, slightly blurred indoor setting, possibly a home or office.

What's the difference between a sole trader and a limited company?

by the Simply Business Editorial Team

About Simply Business

We're one of the UK's largest business insurance providers. Since we started life in 2005, we've helped three million small businesses and self-employed people find the protection that's right for them, from builders to bakers and personal trainers (we cover landlords, too).

How does it work?

Answer a few questions about your business and we'll show you quotes from a range of insurers. After you buy, our Northampton-based team will be with you through every step of your cover, whether you have questions about your policy or you need to make a claim.

Sole trader or limited company?

What's the difference between a sole trader and a limited company? Check out our definitions, compare the advantages and disadvantages, and find out which legal structure best suits your business.

Every business, no matter how big or small, needs a legal structure. You can choose to be either a sole trader, partnership, or limited company – and most choose to be either a sole trader or a limited company.

According to the Department for Business, Innovation and Skills, in 2020 there were 3.5 million sole proprietorships (59 per cent of the total), 2.0 million actively trading companies (34 per cent) and 414,000 ordinary partnerships (7 per cent) in 2020.

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What is a sole trader?

A sole trader is essentially a self-employed person who's the sole owner of their business. It's the simplest business structure out there – which is probably why it's the most popular – and you can set up as one via the [gov.uk website](#) (you'll need to do this for tax purposes).

Read our guide on how to [register as self-employed with HMRC](#).

What is a limited company?

A [limited company](#) is a type of business structure that has its own legal identity, separate from its owners (shareholders) and its managers (directors). This remains the case even if it's run by just one person, acting as shareholder and director.



Sole trader vs limited company

Wondering about being a sole trader or limited company and the pros and cons of each?

Sole trader advantages

- easy to set up and relatively little paperwork, other than [an annual Self Assessment tax return](#)
- greater privacy than incorporated businesses, whose details can be found [via Companies House](#)

Sole trader disadvantages

- sole traders have unlimited liability, which means there's no legal difference between themselves and their business – so if the business gets into debt, the business owner is personally liable
- this means that sole traders can lose personal assets if things go wrong
- raising finance can be tricky, as banks and other investors tend to prefer limited companies. This limits the expansion opportunities of sole traders
- tax rates on sole traders aren't always as kind as they are on limited companies. When you reach a certain level of earnings, it might not be quite as lucrative to stay a sole trader

Limited company advantages

- unlike sole traders, a limited company is legally separate from its business owner, who has limited liability
- this means personal assets aren't exposed – you only stand to lose what you put into the company
- once you've registered a company name nobody else can use it, in contrast to sole traders who aren't offered the same protection

Plus, broadly speaking, limited companies stand to be more tax efficient than sole traders, as rather than paying [income tax](#) they pay [corporation tax](#) on their profits.

As things stand this offers a kinder tax rate than the higher rates of income tax, meaning forming a limited company can be more profitable. In addition to this, there's a [wider range of allowances and tax-deductible costs](#) that a limited company can claim against its profits

Limited company disadvantages

- limited companies have more responsibilities. These are known as the director's fiduciary responsibilities, which basically outline what a limited company director must do legally
- thanks to these added responsibilities going limited can be costly and time-consuming, as you'll need to either deal with this extra paperwork yourself or [hire an accountant](#)
- information about your business can be found via [Companies House](#), meaning details on directors and your company's earnings are required to be shown publicly. This sort of transparency may not appeal to all

Some of the added responsibilities include [filing an annual company tax return](#), as well [annual accounts](#).

You'll need to pay a fee to incorporate too – [check out our guide to setting up a limited company](#) to learn more.

Choosing between a sole trader and limited company

Ultimately, you need to weigh up the difference between a sole trader and limited company, as the structure you choose could impact on everything from profits to paperwork. Don't rush into any decision and speak to an accountant if you're unsure, as their expertise is often invaluable when it comes to tax.

Elsewhere, investigate insurance – regardless of the structure you choose – as running either type of business will bring its own unique risks. Discover more on [sole trader insurance](#) and [limited company insurance](#) and find out a basic overview of what you'll need.



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