

# Sole Trader, Limited Company or Partnership?

Choosing the right structure for your business can save you thousands in tax, protect your personal assets, and set you up for long-term success.



# What's Inside

Everything you need to understand your options, compare the tax implications, and make the right choice for your circumstances.

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# Understanding Your Options

There are three main ways to set up your business in the UK. Each has its own legal status, tax treatment, and level of responsibility.




**Sole Trader**

As a sole trader, you are responsible for all aspects of your business. You pay tax on your profits through PAYE and Class 2 National Insurance contributions. You have full control over the business but also bear all the risks.



**Limited Company**

Setting up a limited company separates your personal assets from the business. You pay Corporation Tax on the company's profits and pay yourself a salary and dividends. This offers limited liability protection.



**Partnership**

A partnership involves two or more people sharing the business. Each partner is responsible for their share of the business. Profits are split between partners, and each pays tax on their share.

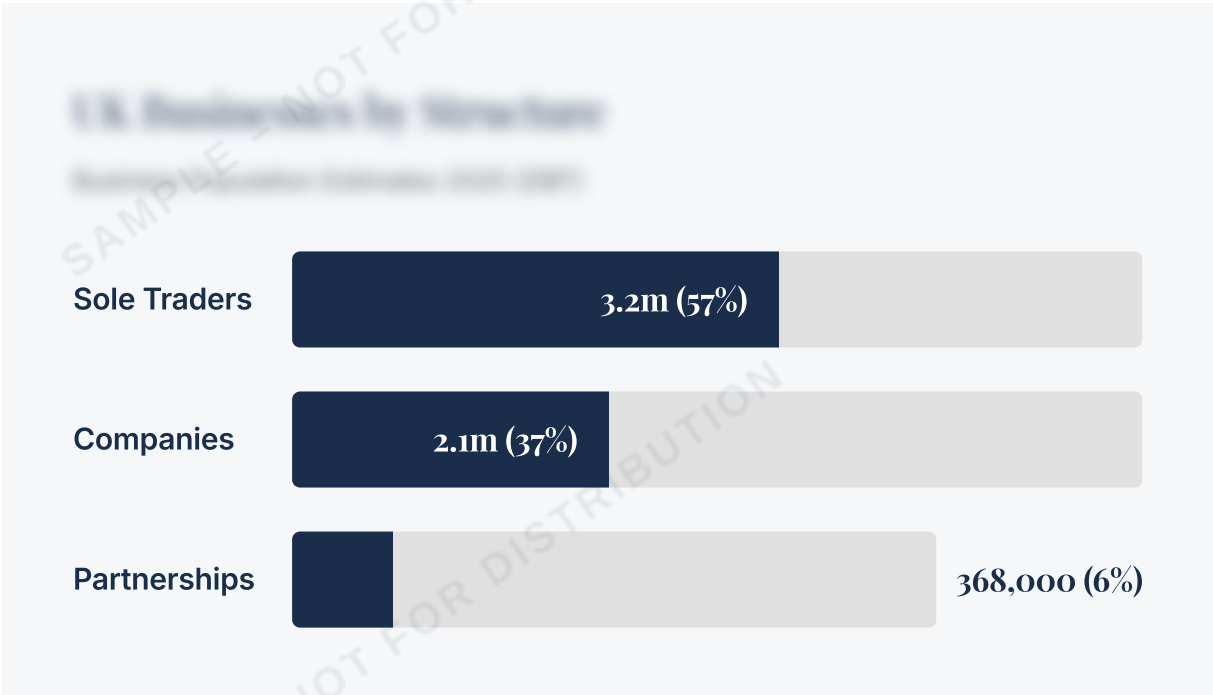
**Did you know?**

75% of all businesses in the UK are sole traders. However, limited companies are the most common form of business structure. This is because they offer limited liability protection, which means your personal assets are protected if the business fails.

# The Numbers That Matter

The UK has 5.7 million private sector businesses. Here is how they break down by structure, and what that means for your growing small business.

|   |                                 |   |
|---|---------------------------------|---|
| <b>5.7m</b><br>UK private sector businesses | <b>75%</b><br>Have no employees | <b>99.9%</b><br>Are small or medium-sized |
|---|---------------------------------|---|



## When Does Incorporating Make Sense?

For most businesses, the tax efficiency crossover point is around £20,000 to £25,000 in annual profit. Above this level, a limited company with a salary plus dividends strategy could save you £2,000 to £5,000 per year. Below this level, the simplicity of sole trading often outweighs any tax saving.

# How You'll Be Taxed

This is often the biggest factor in choosing a business structure. Here's how each option is taxed for the 2025/26 tax year.

| Tax                          | Sole Trader                                      | Limited Company                                  |
|------------------------------|--|--|
| <b>Income Tax</b>            | 20%/40%/45% on all profits                       | Only on salary drawn                             |
| <b>Corporation Tax</b>       | <b>N/A</b>                                       | 19% to 25% on profits                            |
| <b>National Insurance</b>    | Class 4: 6%/2%                                   | Employee 8%/2% + Employer 15%                    |
| <b>Dividend Tax</b>          | <b>N/A</b>                                       | 8.75%/33.75%/39.35%                              |
| <b>Tax-Free Allowances</b>   | £12,570 personal + £1,000 trading                | £12,570 personal + £500 dividend                 |
| <b>Pension Contributions</b> | Personal: tax relief at marginal rate            | Employer: deductible, no NI                      |
| <b>CGT on Sale</b>           | Business Asset Disposal Relief: 10% on first £1m | Business Asset Disposal Relief: 10% on first £1m |
| <b>Loss Relief</b>           | Offset against other income                      | Carry forward against future profits             |

Partnerships follow the same tax rules as sole traders.

Each partner pays income tax on their share of the profits, as if they were a sole trader, but under the name of the partnership.

# Taking Money Out of Your Business

How you extract your money from the business affects the tax you pay on your business profits. We'll look at three common ways to take money out of your business.

## Sole Trader: Drawings

As a sole trader, you can take money out of your business whenever you like. There is no limit on how much you can take out of your business profits, and you can take it out through your bank account, whether you draw from a sole trader account or not.

## Limited Company: Salary + Dividends

As a limited company director, you can take a salary and dividends. Your salary is subject to PAYE and National Insurance, but dividends are not subject to National Insurance, which is often the best way to take money out of your business.

## Partnership: Profit Share

Partners agree how to split profits in their partnership agreement. Each partner then takes their share of their share through their bank account, which is a sole trader account.

## The Pension Advantage

Through a limited company, you can pay yourself a pension. This is a great way to take money out of your business, as you can pay yourself a pension for as little as £5 per month. This is one of the most tax-efficient ways to extract profit from a company.

## Key Figures 2025/26

£12,570

Personal allowance  
Dividend allowance  
Dividend tax-free allowance

£900

Personal allowance  
Dividend allowance

£60,000

Personal allowance  
Dividend allowance  
Dividend tax-free allowance

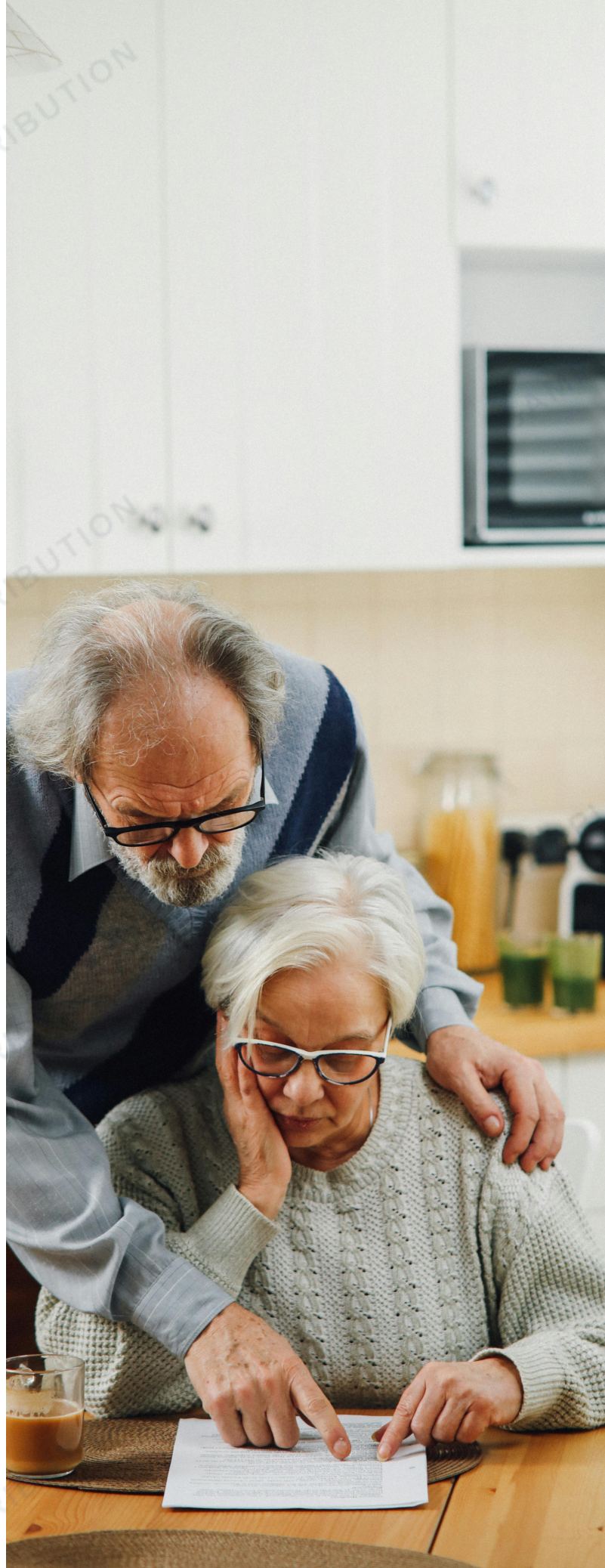
# Protecting What You've Built

Whether you're a sole trader, limited company or partnership, it's important to protect what you've built. This means taking steps to ensure your business is protected in the event of an unexpected event. This could include taking out insurance, setting up a will, and making sure your business is properly structured.

It's also important to consider the future of your business. This could include planning for succession, making sure you have a clear plan for what happens if you're unable to continue, and making sure your business is protected in the event of an unexpected event.

## When Protection Matters Most

- You're a sole trader with no other income
- Your business is your main source of income
- You have a large amount of debt
- You have a large family
- You have a large amount of assets



# Running Your Business Day to Day

The level of detail and complexity varies significantly between structures. Here is what each requires:

## Sole Trader

Register with HMRC to file the annual self assessment return per year by 31 January. Keep records for at least five years. From April 2025, if your income exceeds £10,000, you must keep digital records and send quarterly updates under Making Tax Digital.

## Limited Company

Accountants at Companies House £100 online. File annual accounts within nine months of year end and a Corporation Tax return within 12 months, and a confirmation statement every year £100. Keep company finances strictly separate from personal finances. Records must be kept for at least six years.

## Partnership

Register the partnership with HMRC, and nominate one partner to file the partnership return. Each partner also files a personal self assessment. A written partnership agreement is strongly recommended to avoid disputes over profit shares, decision making, and exit terms.



### Accounting Costs

Self-retain accounts (up to £1000 to £1000 per year). Limited company accounts can cost £1000 to £2000 or more, depending on complexity. Factor this into your tax comparison.

# Side by Side

A side-by-side comparison of the most common business structures for small business owners.

## Sole Trader

- ✔ Easy and cheap to set up
- ✔ Minimal annual paperwork
- ✔ Complete control for profit and loss
- ✘ No liability protection
- ✘ Higher tax rates on profits
- ✘ No separate personal tax return

**Best for:**  
Starting up with low risk

MOST POPULAR SWITCH

## Limited Company

- ✔ Limited liability protection
- ✔ Tax efficient structure
- ✔ Flexible ownership structure
- ✘ Higher setup and accounting costs
- ✘ More complex compliance
- ✘ Not suitable for all businesses

**Best for:**  
Growing businesses, higher profits, limited liability

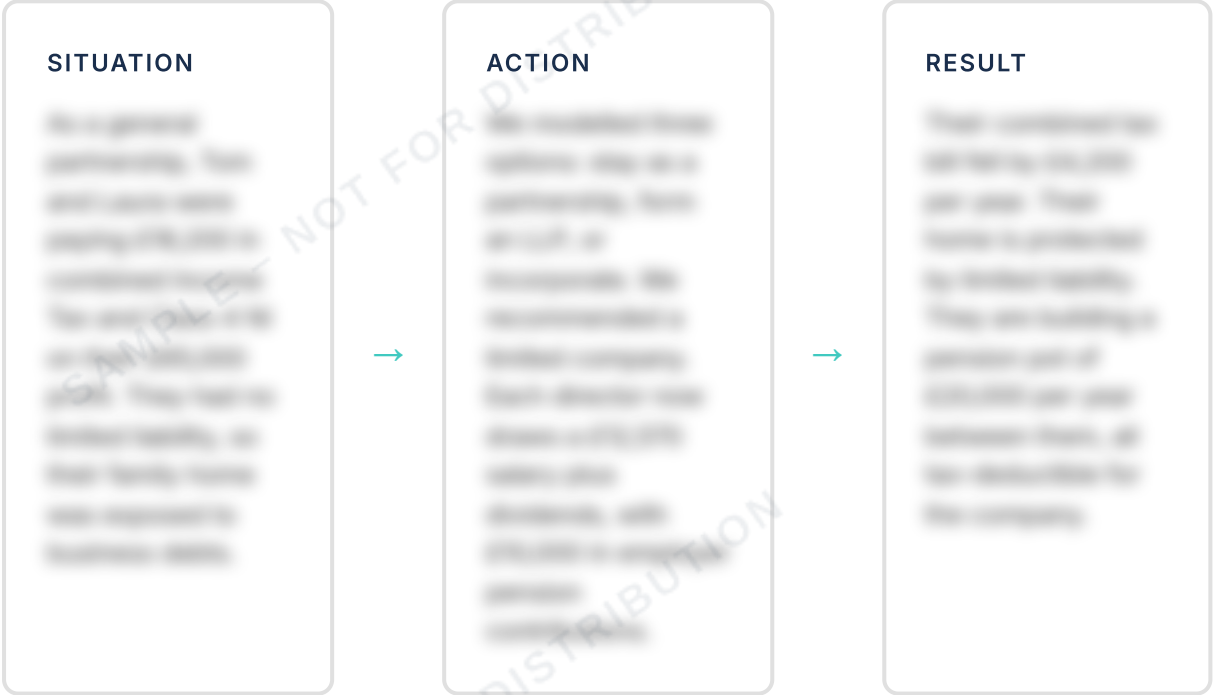
# Meet Tom and Laura

Tom and Laura run a growing business together. With profits reaching £80,000, they want to consider how to change their business structure.



**Tom & Laura, both 38** ▶ **Business**  
Tom and Laura both work running a marketing consultancy from home. They have 2 children.

- Save for children's future
- Reduce tax bill
- Protect family home



**What Tom and Laura can do now**  
The business is currently a partnership. Tom and Laura are both 38 and have 2 children. They want to consider how to change their business structure. They have 2 children. They want to consider how to change their business structure.

# What's Changing

Several changes will impact your business after the 2025-26 tax year. We've outlined the key changes you need to know.

**15%**

Employer NI rate  
(up from 13.8%)

**£5,000**

New employer NI  
threshold (down from  
£9,100)

**£10,500**

Employment Allowance  
(up from £5,000)

## April 2025

Employer NI rate increases to 15% with a new £5,000 threshold. Employment Allowance increases to £10,500, partly offsetting the cost for small companies.

## April 2026

Employer NI rate increases to 15.95% for small businesses with turnover up to £10M, with a new £5,000 threshold. Making the Employer NI threshold mandatory for all employers earning over £10,000.

## April 2027

Making the Employer NI threshold mandatory for all employers earning over £10,000. The Employer NI rate increases to 16.01% from 15.95% with effect from April 2027.

### Don't forget the bigger picture

Your business structure is just one piece of your tax puzzle. We can help you consider how all the different tax provisions apply, combined for planning and long-term wealth goals.

# Is It Time to Make a Change?

Use this checklist to help decide whether your current business structure is still right for you. If you are not sure of the answer, it may be worth consulting your adviser with us.

|   |   |
|---|---|
| <input checked="" type="checkbox"/> <b>Are you a sole trader?</b><br>You are responsible for all the business's debts and liabilities.<br>You pay tax on your profits.                | <input checked="" type="checkbox"/> <b>Are you a limited company?</b><br>You are responsible for the company's debts and liabilities.<br>You pay tax on your profits.           |
| <input checked="" type="checkbox"/> <b>Are you a partnership?</b><br>You are responsible for the partnership's debts and liabilities.<br>You pay tax on your profits.                 | <input checked="" type="checkbox"/> <b>Are you a limited liability partnership?</b><br>You are responsible for the LLP's debts and liabilities.<br>You pay tax on your profits. |
| <input checked="" type="checkbox"/> <b>Are you a sole trader or partnership?</b><br>You are responsible for all the business's debts and liabilities.<br>You pay tax on your profits. | <input checked="" type="checkbox"/> <b>Are you a limited company or LLP?</b><br>You are responsible for the company's debts and liabilities.<br>You pay tax on your profits.    |
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# Your Next Steps

Ready to review your business? Here's how to get started.

**1** **Collect your numbers** 15 MINS

We'll collect your sales and financial statements, profit and loss figures, and details of any business expenses. We will use these to create the options for you.

**2** **Book a structure review with us** 5 MINS

We will compare our trade, limited liability, and partnership options with you, taking into account your financial figures. We will also discuss what each structure would cost.

**3** **Considering the next few factors** 10 MINS

We'll discuss family protection, future plans, and how much advice you are comfortable with. Tax savings matter, but they are not the only consideration.

**4** **Plan the transition**

For change to take effect, we will help you to prepare incorporating your company, setting up correct banking accounts, and ensuring nothing falls through the cracks.

**Ready to take the next step?**

Call us on **0800 000 0000** or email [info@businesscheck.com](mailto:info@businesscheck.com) to book your free business structure review.



