SOLE TRADER OR LIMITED COMPANY?

The following are the main areas to be considered when deciding whether you will trade as a sole trader or partnership, as opposed to a limited liability company.

* the paperwork you must fill in to get started
* the taxes you'll have to manage and pay
* how you can personally take the profit your business makes
* your personal responsibilities if your business makes a loss

The main differences between the two types of vehicle are:

Sole Trader/Partnership

If you start working for yourself you are classed as self employed, even if you haven't told HMRC.

Limited Liability Company

A limited liability company has to be created and registered at Companies House.

As a sole trader, you run your own business as an individual. You can keep all your business's profits after you've paid tax on them.	A limited liability company is a separate legal entity, and is liable to pay corporation tax on the profits it make. You can only take money from the company by way of either salary or dividends.
The profits are taxed at the owner's rate of tax ie 20%/40%/45%	The company's profits are taxed at the corporation tax rate of 20%.
You will be liable to pay self-employed national insurance contributions of £2.75 per week, plus a further 2% of profits over £7,956 up to £41,865.	Both the company and yourself will pay national insurance contributions on any salary paid to you as an employee of the company.
You are personally responsible for any losses your business makes	You are only liable for company losses to the amount that you have paid into the company to purchase your shares.
Your annual accounts are private to you.	The annual accounts have to be filed at Companies House and are available for public inspection.

NOTE: TAX RATES CORRECT AS AT MAY 2015