



STARTING A BUSINESS SERIES

TAX YEAR 2026/27

FOUNDERS · THE INCORPORATION DECISION

Sole Trader or Limited Company?

The one decision every founder has to make, settled in plain English: how each structure is taxed, what limited liability really protects, and where the tax crossover actually sits in 2026/27. With a worked take-home comparison and a decision checklist.

| | | |
|-----------------|---------------------|--------------------|
| CORPORATION TAX | DIVIDEND TAX, BASIC | DIVIDEND ALLOWANCE |
| 19% | 10.75% | £500 |

• [START HERE](#)

How to read this, and the numbers behind the decision


There is no single right answer. The best structure depends on your profit, your appetite for admin, and how much you want to protect your own money. This guide walks you through the trade-offs, then a checklist helps you land on a choice. The figures below are current for the 2026/27 tax year.


At a glance, the figures that move the decision




| | | | |
|---|---|--|---|
| <p>CORPORATION TAX</p> <p>19%</p> <p>To £50k, 25% over £250k</p> | <p>DIVIDEND TAX</p> <p>10.75%</p> <p>Basic rate, then 35.75%</p> | <p>DIVIDEND ALLOWANCE</p> <p>£500</p> <p>Tax free, each shareholder</p> | <p>CROSSOVER</p> <p>£30k+</p> <p>Where it gets close, then level</p> |
|---|---|--|---|

The five sections

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 **THE SHORT VERSION**
At low profits the tax is much the same, and the 2026/27 dividend rise has narrowed the gap further. So the decision is rarely just about tax. It is about **protection, reinvestment and credibility**, and that is where a company tends to win once you are established.

 **What you'll need** **ABOUT 10 MINUTES**

-  **Your expected annual profit**, or a realistic estimate for your first full year
-  **A sense of your risk:** contracts, stock, premises or anything a claim could attach to
-  **How much you plan to draw** versus leave in the business to reinvest

01 THE TWO STRUCTURES

Sole trader and limited company, side by side

Strip away the jargon and the difference is simple. As a sole trader, you and the business are one and the same. As a limited company, the business is a separate legal person that you own and run.

Sole trader

You **are** the business. You keep the profits, and you are taxed on them personally through **Self Assessment**. There is no separate company, so set-up is quick and the admin is light.

Limited company

The company is a **separate legal person** that owns its profits. It pays **Corporation Tax**, and you take money out as a salary and as dividends, each taxed on you in turn.

| HOW IT WORKS | SOLE TRADER | LIMITED COMPANY |
|---------------------------|--------------------------------------|--|
| Legal status | You and the business are one | A separate legal person you own |
| Tax on profits | Income Tax via Self Assessment | Corporation Tax (19% to 25%) |
| How you are taxed | On all business profit, as it arises | On the salary and dividends you take out |
| National Insurance | Class 4 at 6% then 2% on profit | Class 1 on salary; none on dividends |
| Taking money out | Drawings, freely, no extra tax step | Salary and dividends, each taxed |
| Set-up and admin | Register with HMRC, light records | Incorporate, plus accounts and a return |

Source: GOV.UK, Set up as a sole trader and Set up a limited company; Income Tax rates, Self-employed NI rates, Corporation Tax rates. 2026/27.



THE SAME PROFIT, TAXED TWO DIFFERENT WAYS

A sole trader pays Income Tax and Class 4 NIC on **all** profit, whether or not they spend it. A company pays Corporation Tax on its profit, but you are only taxed personally on what you **take out**. That gap, on profit you leave in to reinvest, is one of the company's quiet advantages.



YOU ARE NOT LOCKED IN

You can start as a sole trader and **incorporate later** once profits and risk grow. Many founders do exactly that. Going the other way, from company back to sole trader, is also possible but more involved, so the usual path is to start simple and step up.

02 PROTECTION FIRST

Limited liability, the non-tax reason that matters most

People reach for the tax argument first, but the biggest practical difference is protection. A company draws a legal line between the business and you. A sole trader has no such line.

As a sole trader there is **no separation** between you and the business. If the business owes money it cannot pay, or a claim is brought against it, your personal assets are on the line: your savings, and in the worst cases your home. A limited company is its own legal person, so in most cases its debts are **its** debts, and your loss is limited to what you put in.

| IF THINGS GO WRONG | SOLE TRADER | LIMITED COMPANY |
|------------------------------|-----------------------------------|--|
| Business debts | You are personally liable in full | Limited to your share capital, in most cases |
| A claim or lawsuit | Brought against you personally | Brought against the company |
| Your home and savings | Potentially at risk | Generally protected |
| The business fails | Debts follow you | Usually ringfenced in the company |

Source: GOV.UK, Set up a limited company (limited liability). Protection is not absolute, see the note below.



LIMITED LIABILITY IS NOT A FORCE FIELD

The protection has limits. If you give a **personal guarantee** for a loan or lease, you are on the hook for that. Directors can also be liable for **wrongful trading** or fraud, and unpaid tax in some cases. So a company shifts the risk, it does not erase it.



WHO FEELS THIS MOST

If you hold stock, sign supplier contracts, take on premises, employ people, or work in a field where a mistake could be costly, the protection of a company is worth real money. A low-risk freelancer with no debts and no staff feels it far less.



CREDIBILITY COMES WITH IT

A company on the Companies House register can also **look more established** to larger clients, lenders and suppliers, some of whom prefer or even require a limited company to trade with. It is a softer benefit, but a real one when you are pitching for bigger work.

03 THE TAX CROSSOVER

Where a company starts to pay, on the numbers

At low profits the two structures cost much the same in tax. As profit rises a company has historically pulled ahead, but the 2026/27 dividend rate rise has narrowed that gap to almost nothing on take-home alone.

The crossover, the profit level where a company begins to look better, has broadly sat in the **£30,000 to £50,000** range. From April 2026 dividend tax rose by two points (to 10.75%, 35.75% and 39.35%) and the allowance is just £500, so on pure take-home the structures are now very close. The company's edge increasingly comes from what you do **around** the salary and dividends: pensions, timing, and reinvesting profit.



Worked example · £60,000 profit, take-home compared

| | |
|---|-----------|
| Sole trader: Income Tax | - £11,432 |
| Sole trader: Class 4 NIC (6% then 2%) | - £2,457 |
| Company: salary £12,570, Corporation Tax 19% and dividend tax | - £13,909 |

Take-home: sole trader £46,111 vs company £46,091

Within £20



READ THIS THE RIGHT WAY

At £60,000 the two are **level pegging** on take-home in 2026/27, the company is not the automatic winner it once was. The figures assume a £12,570 salary and dividends, with no pension contribution. Add a **pension**, or leave profit in the company to grow, and the company moves ahead, because profit you do not draw is taxed only at 19%, not at your personal rate.



WHY THE GAP CAN STILL FAVOUR A COMPANY

A sole trader is taxed on **every pound of profit**, drawn or not. A company is taxed at 19% on profit, and you choose what to draw. If you reinvest, save into a pension, or build up reserves, the company defers the personal tax, and that is where the real saving now lives, not in the headline take-home.

04 THE DECIDING FACTORS

The trade-offs, and when each structure wins

A company buys you protection and flexibility, but it asks for more in return: more admin, public filings, and a payroll if you take a salary. Weigh what you gain against what it costs you in time and disclosure.

| WHAT CHANGES WITH A COMPANY | SOLE TRADER | LIMITED COMPANY |
|-----------------------------|---------------------------|---|
| Annual filing | A Self Assessment return | Accounts, a Company Tax Return and a confirmation statement |
| Payroll | None needed | PAYE scheme if you take a salary |
| Public record | Your details stay private | Accounts and directors on the public register |
| Tax planning | Limited | Pensions, timing dividends, splitting shares |
| Cost and effort | Low | Higher, usually an accountant's help |

Source: GOV.UK, Running a limited company (accounts, Company Tax Return, confirmation statement) and Set up as a sole trader. 2026/27.

When a sole trader wins

You are **just starting out** or testing an idea, profits are modest, your risk is low, and you value keeping things simple and private. The lighter admin and quick set-up are worth more to you than the protection.

When a company wins

Profits are **sustained**, you want to protect your personal assets, you are **reinvesting** rather than drawing everything, or you want the planning flexibility of pensions, share splits and timing.



A COMMON, SENSIBLE PATH

Start as a **sole trader** while you find your feet, then **incorporate** once profits are steady, you take on real risk, or you start to retain earnings. You get simplicity early and protection when it counts, and we can run the numbers to tell you when the moment has come.

05 WORK IT THROUGH

The sole trader or company decision checklist

Print this page and tick the boxes that are true for you. The more ticks in a column, the more that structure suits you right now. Re-run it each year as your business grows.

✔ Points towards a company

- My profits are **sustained above roughly £40,000 to £50,000** a year TAX
- I want to **protect my home and savings** from business debts or claims KEY
- I **reinvest** profit or build reserves, rather than drawing it all out KEY
- I take on **contracts, stock, premises or staff** that carry real risk
- Larger clients or lenders **expect a limited company** to deal with
- I want **pensions, share splitting and timing** as planning tools

🔗 Points towards staying a sole trader

- I am **just starting out** or testing whether the idea works
- My profits are **modest** and I draw most of what I make
- My **risk is low**: no stock, no premises, no staff, no big contracts
- I value **light admin** and keeping my details off the public record

✔ Things to weigh either way

- Am I ready for **annual accounts and a Company Tax Return**?
- Am I comfortable my **accounts and details are public** at Companies House?
- Will I run a **PAYE payroll** for a director's salary?
- Have I compared **take-home on my own profit**, not a rule of thumb? DO THIS
- Could a **pension contribution** change the answer for me?

📁 Before you decide

- Estimate my **profit for the next full year**, honestly
- List what a claim or debt could **attach to** if I am personally liable
- Decide how much I will **draw versus reinvest**
- Model **both structures** side by side on those numbers
- If a company suits me, get it **set up properly** from day one



STILL UNSURE? THAT IS NORMAL

Most of these point the same way for any given founder. If your ticks are split, the deciding factors are usually **risk and reinvestment**. We can model both structures on your real numbers in a free review, and set up the company for you if it is the right call.

We will model both, then set up the **company** if it fits

Book a free, no-obligation review. A CIMA-qualified accountant will run sole trader against limited company on your own numbers, tell you in plain English which wins and why, and if a company is right, form it and get you running.

- ✓ A take-home comparison on your real profit, not a rule of thumb
- ✓ A clear read on limited liability, reinvestment and the right salary mix
- ✓ If a company suits you, we incorporate and set up payroll and Corporation Tax
- ✓ Reviewed by a **CIMA-qualified** accountant (ACMA, CGMA)

★★★★★ 4.9 on Google · 56 reviews



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About this guide. Reviewed by Harvey Dhillon, ACMA CGMA. Figures verified against GOV.UK for the 2026/27 tax year. The worked example assumes a £12,570 salary plus dividends and no pension contribution; your position will differ. This guide is general information, not advice for your specific circumstances; rates and thresholds can change. Always confirm your position with a qualified accountant before acting. © Zmartly 2026.