zmartly

LIMITED COMPANIES

ZMARTLY FACTSHEET SERIES

Sole Trader or Limited Company? The Incorporation Decision

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 now the dividend rises have narrowed the gap.

Tax year **2026/27** · Prepared by **Harvey Dhillon** · Last reviewed **21 March 2026** · Sources: gov.uk

CORPORATION TAX	DIVIDEND TAX	DIVIDEND ALLOWANCE	INCOME TAX RATES	CLASS 4 NIC
19% – 25%	10.75% · 35.75% · 39.35%	£500	20% · 40% · 45%	6% · 2%

01 The two structures in plain English

Strip away the jargon and the difference is simple. As a sole trader, you and the business are one and the same: you keep the profits and you are taxed on them personally through Self Assessment, at Income Tax rates, plus Class 4 National Insurance. As a limited company, the business is a separate legal person that you own and run. The company pays Corporation Tax on its profits, and you take money out as a salary and as dividends, each taxed on you in turn.

- Sole trader: taxed on all profit as it arises, whether you spend it or not.
- Company: taxed at 19% to 25% on profit, then you are taxed only on what you take out.
- Set-up is quick and light for a sole trader; a company means incorporation, annual accounts and a Company Tax Return.

GOOD TO KNOW
You are not locked in. Many founders start as a sole trader and incorporate later, once profits and risk grow.

02 Limited liability, the headline non-tax reason

People reach for the tax argument first, but the biggest practical difference is protection. As a sole trader there is no separation between you and the business, so if it owes money it cannot pay, or a claim is brought against it, your personal assets are on the line, including 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.

- Sole trader: personally liable in full for business debts and claims.
- Company: liability generally limited to your share capital, ringfencing your personal assets.
- The protection is not absolute: personal guarantees, wrongful trading and fraud can still reach you.

GOOD TO KNOW
A company on the Companies House register can also look more established to larger clients, lenders and suppliers.

03 The tax crossover, on the numbers

At low profits the two structures cost much the same in tax. 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 the dividend rates 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 uses Corporation Tax at 19% on profits up to £50,000 and 25% over £250,000, with marginal relief between. Try it on your own figures:

GOOD TO KNOW
At £60,000 profit in 2026/27, a sole trader keeps about £46,111 and a company about £46,091, within £20 of each other on take-home alone.

04 The trade-offs of running a company

A company buys you protection and flexibility, but it asks for more in return. There is 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.

- More admin: annual accounts, a Company Tax Return and a confirmation statement.
- A PAYE payroll if you take a director's salary.
- Public filings: your accounts and directors sit on the Companies House register.
- In return, real planning flexibility: pensions, timing dividends and splitting shares.

GOOD TO KNOW
Profit you leave in to reinvest is taxed at just 19%, not your personal rate, which is where the company's real edge now lives.

05 When each one wins

There is no single right answer, but the pattern is clear. A sole trader suits you when you are simple, lower-profit or just starting out. A company suits you once profits are sustained, you want to protect your personal assets, or you are reinvesting rather than drawing everything.

- Sole trader: starting out, modest profits, low risk, you value light admin and privacy.
- Company: sustained profits, you want protection, you reinvest, or you want planning tools.
- A common path is to start simple and incorporate when profits and risk justify it.

Common questions

Is a limited company always more tax-efficient than being a sole trader?

No, and less so than it used to be. At lower profits the tax is much the same, and the 2026/27 dividend rate rise has narrowed the gap further. At £60,000 profit the take-home is now almost identical. A company's advantage increasingly comes from limited liability, pension contributions and reinvesting profit at the 19% Corporation Tax rate, rather than from the headline take-home.

Where is the crossover point between sole trader and company?

Broadly in the £30,000 to £50,000 profit range, but it is no longer a clean line. Because dividend tax rose to 10.75% from April 2026 and the dividend allowance is only £500, the take-home difference around that range is small. The right answer depends on how much you draw versus reinvest, so model both on your own figures.

Does a limited company really protect my personal assets?

In most cases, yes. A company is a separate legal person, so its debts are generally its own and your loss is limited to what you put in. The protection is not absolute: if you give a personal guarantee, or in cases of wrongful trading or fraud, you can still be personally liable.

Can I start as a sole trader and switch to a limited company later?

Yes, and many founders do. Starting as a sole trader keeps things simple and cheap while you find your feet, then you incorporate once profits are steady, you take on real risk, or you start to retain earnings. We can model both and tell you when the moment has come.

KEEPABLE WORKBOOK

Print this part and work through it

Everything below is built to keep. Print it, fill it in, and take it to any conversation, including ours.

The sole trader or company decision checklist

Tick the boxes that are true for you. The more ticks pointing one way, the more that structure suits you right now. Re-run it each year as your business grows.

- [ ] Points to a company: my profits are sustained above roughly £40,000 to £50,000 a year
- [ ] Points to a company: I want to protect my home and savings from business debts or claims
- [ ] Points to a company: I reinvest profit or build reserves rather than drawing it all out
- [ ] Points to a company: I take on contracts, stock, premises or staff that carry real risk
- [ ] Points to a company: larger clients or lenders expect a limited company to deal with
- [ ] Points to a sole trader: I am just starting out or testing whether the idea works
- [ ] Points to a sole trader: my profits are modest and I draw most of what I make
- [ ] Points to a sole trader: my risk is low, with no stock, premises, staff or big contracts
- [ ] Points to a sole trader: I value light admin and keeping my details off the public record
- [ ] Before deciding: I have compared take-home on my own profit, not a rule of thumb
- [ ] Before deciding: I am ready for annual accounts, a Company Tax Return and a PAYE payroll
- [ ] Before deciding: I have decided how much I will draw versus reinvest

If your ticks are split, the deciding factors are usually risk and reinvestment. We can model both structures on your real numbers and, if a company suits you, set it up for you.

NEXT STEP

Get expert eyes on your tax

Book a free 30-minute Tax Health Check — we review your situation, sense-check the figures and show you where you could save.

Scan to book a free call

For guidance only — this factsheet does not constitute professional advice and is not a substitute for advice based on your specific circumstances. Whilst every care has been taken in its preparation, it may contain errors for which we cannot be responsible. Figures are for the 2026/27 UK tax year (England, Wales & Northern Ireland) and may change. Scottish taxpayers face different income tax rates; dividend rates are UK-wide. Last reviewed 21 March 2026.

Zmartly Ltd · 12 Hammersmith Grove, London W6 7AP · CIMA-regulated · ACMA, CGMA, ACCA, FCCA

020 8175 5145 · info@zmartly.co.uk · zmartly.co.uk