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SOLE TRADERS & FOUNDERS

ZMARTLY FACTSHEET SERIES

Sole Trader vs Limited Company

The real differences between trading as a sole trader and as a limited company — tax, liability, admin and credibility — with a live calculator that compares your take-home both ways.

Tax year **2026/27** · Prepared by **Harvey Dhillon** · Last reviewed **10 October 2025** · Sources: gov.uk

PERSONAL ALLOWANCE	DIVIDEND TAX	CORPORATION TAX	CLASS 4 NIC
£12,570	**10.75% · 35.75% · 39.35%**	**19% – 25%**	**6% · 2%**

01 The fundamental difference

As a sole trader, you and the business are the same legal person — simple to run, but you are personally liable for its debts. A limited company is a separate legal entity that you own and direct.

> **GOOD TO KNOW**
> Limited liability is often the deciding factor, not just the tax.

02 How each is taxed

The two structures are taxed in completely different ways:

- Sole trader — Income Tax and Class 4 NIC on all profits, whether you draw them or not
- Limited company — Corporation Tax on profit, then you take a salary and dividends
- A company lets you control when and how you extract profit

> **GOOD TO KNOW**
> The company advantage grows with profit — and shrinks if you draw every penny.

03 Admin, cost and privacy

Running a company is more work and less private:

- Sole traders file one Self Assessment; companies file accounts and a CT600
- Company details and accounts are public at Companies House
- Companies cost more to run, but can look more established

04 When a sole trader wins

Simpler is sometimes genuinely better:

- Lower profits, where the extra admin is not worth it
- You value privacy and simplicity
- You are still testing the idea

05 When a company wins

A company earns its keep when:

- Profits are higher and you do not need to draw them all
- You want limited liability protecting your personal assets
- You are raising investment or building to sell
- Clients or contracts require you to be a company

06 Switching over later

You can incorporate when the time is right — moving your sole trade into a company — with reliefs that can defer the tax on goodwill and assets. It is a planned step, not a scramble.

Common questions

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

Often at higher profits, especially if you do not need to draw all the profit — but after the 2023 Corporation Tax rise and higher dividend tax, the gap is smaller than it used to be. Use the calculator on your own figures.

What is the main advantage of a limited company?

Limited liability — your personal assets are protected if the business cannot pay its debts — plus control over when you extract profit and a more established image.

Can I switch from sole trader to limited company?

Yes, at any time. Incorporation reliefs can defer the tax on the goodwill and assets you transfer in, so it is worth planning the timing with an accountant.

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 10 October 2025.

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