

MSF ASSOCIATES

Sole Trader or Limited Company?

The Simple Decision Tool That Tells You
Which Structure Is Right for You

*"The wrong structure is costing you thousands.
This takes 2 minutes to fix."*

By MSF Associates Ltd

The Quick Answer

There's no one-size-fits-all. But there **is** a clear answer for **your** situation. Here's how to find it in 60 seconds.

THE 60-SECOND DECISION TOOL

“Is your annual profit (or expected profit) over £30,000?”

YES → Keep going | **NO** → Sole trader is probably fine for now

“Do you want to pay less tax on your profits?”

YES → Keep going | **NO** → Stay sole trader (but why wouldn't you?)

“Do you want legal protection between you and your business?”

YES → Keep going | **NO** → You're comfortable with personal liability

“Are you happy to keep basic accounting records and file a Company Tax Return?”

YES → You should be a Limited Company. | **NO** → Get an accountant to handle it (still worth it)



**If you said YES to most of these:
A Limited Company will likely save you thousands per year.**

Still not sure? Keep reading — the next page breaks it down clearly.

The Head-to-Head Comparison

Here's what actually matters — no jargon, just the facts.

Feature	Sole Trader	Limited Company
Setup	Free. Just register with HMRC.	££ fee at Companies House. Quick online process.
Tax on profits	Income Tax: 20–45% on ALL profit. Plus Class 2 & 4 NI.	Corporation Tax: 19–25%. Then choose how/when to extract.
Taking money out	All profit is yours automatically. Taxed immediately.	Salary + dividends. You control the timing and amount.
Tax efficiency	Limited options. You pay tax on everything you earn.	Split salary/dividends to save £5k–15k+/yr on £100k profit.
Personal liability	YOU are the business. Debts are your debts. No separation.	Separate legal entity. Your personal assets are protected.
Admin & paperwork	Minimal. One Self Assessment per year.	More: Corp Tax return, annual accounts, confirmation statement.
Privacy	Your name/address on HMRC records only.	Directors & accounts are public on Companies House.
Credibility	Fine for freelancers and sole operators.	Looks more professional. Some clients require it.
Pension contributions	Personal contributions only. Tax relief on income tax.	Company pays directly. Saves Corp Tax AND NI. Huge advantage.
Selling the business	Difficult. You ARE the business.	Sell shares. BADR LOWER CGT on first £1m. Clean exit.

The bigger your profits, the bigger the gap. At £50k+ profit, a limited company almost always wins on tax.

When Each One Makes Sense

Stay Sole Trader If...

- ✓ You're just starting out and testing a business idea
- ✓ Your profits are under £30,000 per year
- ✓ You want zero admin and maximum simplicity
- ✓ You're a freelancer with one main income source
- ✓ You don't need limited liability protection
- ✓ You have no plans to scale or hire

Go Limited If...

- ✓ Your profits are £30,000+ (and especially £50k+)
- ✓ You want to control when and how you take money out
- ✓ You want to make tax-efficient pension contributions
- ✓ You need legal separation between you and the business
- ✓ You're planning to grow, hire, or eventually sell
- ✓ You want to pay yourself through salary + dividends
- ✓ You want to reinvest profits at a lower tax rate

The Numbers Don't Lie

On **£80,000 profit**, a sole trader pays roughly **£22,000+** in tax & NI.
A limited company director? Closer to **£16,000** with the right structure.

That's **£6,000+** back in your pocket. Every year.

About MSF Associates

MSF Associates is a family accounting firm with over 20 years of history, specialising in proactive tax planning and business systems for UK business owners. Led by Mustafa — The Systems Accountant — we don't just file your returns. We build the financial structure that helps you keep more of what you earn.

Disclaimer: This guide is for general informational purposes only and does not constitute tax or legal advice. Tax rules are subject to change. Every business's circumstances are different. Always seek personalised professional advice before making decisions about your business structure.