# WHEN SHOULD I LOOK AT MOVING FROM A SOLE TRADER TO A LIMITED COMPANY FOR TAX-EFFICIENT SAVINGS?

This is among one of the most frequently asked questions we get from business owners, and for good reason. The move from sole trader to limited company can be a big step, but it can also unlock significant tax savings. So, when does it make sense to switch?

We've put together this mini-guide to help you understand the key signs, tax benefits, and factors to consider before making the move.

## Why tax efficiency matters

As a sole trader, all your business income is treated as personal income. Once you pass the basic tax threshold, that income gets taxed at 20%, 40% or even 45%, plus National Insurance on top.

A limited company, on the other hand, pays corporation tax on profits (currently 19% or 25%, depending on your profit level), which is often lower than personal income tax rates. You can also pay yourself through a mix of salary and dividends, which can reduce your tax bill. So yes, there's paperwork and a few extra admin tasks involved, but for many, the tax savings more than make up for it.

## When is it time to switch?

Here are some key signs it might be time to consider the move:

**1. Your profits are growing**

If your profits are consistently over £30,000 to £50,000 a year, it's worth checking whether a limited company would help you save on tax. This is often the tipping point where the tax benefits start to outweigh the extra admin.

**2. You want to take advantage of dividend payments**

As a director of a limited company, you can pay yourself partly in dividends, which are taxed at a lower rate than income. This strategy isn't available to sole traders.

**3. You want to limit your personal liability**

With a limited company, your business is a separate legal entity. That means you're not personally responsible for business debts, which offers peace of mind as your business grows.

**4. You want to appear more established**

Some clients, especially larger organisations, prefer working with limited companies. It can boost your professional image and help you secure bigger contracts.

**5. You're looking at bringing on investors or shareholders**

This isn't possible as a sole trader. A limited company allows you to issue shares and attract external investment.

## MTD for Self Assessment Income Tax: It's complicated

The rules and regulations for sole traders are changing if your revenue is more than £50k (as a landlord or sole trader) in 2026. This revenue threshold is reduced to £30k in 2027 and £20k in 2028.

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Under the catchily named MTD for ITSA you'll have to file a return showing your income and expenditure quarterly and then something similar to your current tax return. It's almost like doing the work for your annual tax return and accounts four times a year.

This means that, even as a sole trader, we strongly recommend that you:

- Keep all financial records digitally in an approved accounting software
- Separate out your business expenses and income into a separate business account. (We really don't need to see what your bought as a present for your other half!)

The impact of MTD ITSA is that we are seeing that anyone in the regime will see their accounting and tax costs multiple by 2 to 3 times. Whilst means if you are over £30k in turnover as a sole trader and falling into MTD ITSA it is worth a serious chat with us whether to trade as a limited company.

## What are the costs involved?

Running a limited company does come with added responsibilities and costs. These may include:

- Annual filing requirements with Companies House
- Separate company tax returns
- Payroll setup (if you pay yourself a salary)
- Higher accountancy fees in some cases

However, many small businesses still come out ahead overall once the tax savings are factored in. It all comes down to your profit level, future goals and how you manage the transition.

## Not just about tax

While tax savings are a big motivator, the decision to incorporate isn't just financial. You'll need to think about how much admin you're willing to take on, your long-term plans, and whether a limited company structure aligns with how you want to grow.

If you're unsure, your accountant can help you run the numbers and weigh up the pros and cons based on your current and future goals.

## Is the switch right for you?

If your profits are rising or you're thinking about scaling your business, moving to a limited company could be a smart move. Done at the right time, it can reduce your tax burden, protect your personal assets and open the door to more growth opportunities.

*Don't know if it's the right move (or the right time) for you? Contact us today and we can help you analyse your choices and make the best move.*