



WHY STAYING A SOLE TRADER IN 2026 IS COSTING YOU MORE THAN YOU THINK

Most sole traders delay incorporation because they assume it's complicated, costly, or unnecessary until they're making serious money. But here's what that delay could actually be costing you: higher tax bills, unlimited personal liability, and missed opportunities to structure your finances more efficiently.

If you've been putting off incorporating because you're waiting for the "right time," with MTD starting for those with revenue above £50k, the right time is now. The longer you wait, the more you're leaving on the table.

The tax efficiency case for incorporating

The biggest financial advantage of a limited company is how you can extract profit. As a sole trader, you pay Income Tax and National Insurance on everything above your personal allowance. Once you're earning over £50,270, you're paying 40% Income Tax plus 2% National Insurance on every additional pound.

As a limited company director, you can take a small salary (typically around £12,570 to use your personal allowance) and take the rest as dividends. Dividends are taxed at lower rates: 8.75% for basic rate taxpayers and 33.75% for higher rate taxpayers, with no National Insurance. This structure alone can save you thousands of pounds a year in tax. For example, if you're making £60,000 profit as a sole trader, you're paying around £16,432 in tax and NI. Through a limited company with an optimised salary-dividend split, that drops to approximately £11,700. That's nearly £5,000 saved annually.

When you add in the costs that being compliant with MTD will bring, the accountants' costs for you trading as a sole trader or limited company are not too dissimilar. Plus you have to do less tax returns if you trade as a limited company. The incorporation fee has recently increased to £100. It's a one-time cost that pays for itself within weeks if you're earning above the higher rate threshold.

Limited liability protects your personal assets

As a sole trader, there's no separation between you and your business. If something goes wrong, a client sues you, a supplier claims you owe money, or the business goes into debt, your personal assets are at risk. Your house, your savings, everything.

A limited company creates a legal separation. The company is its own entity, and your personal liability is limited to what you've invested in it (usually your share capital, which can be as little as £1). If the business faces financial trouble, your personal assets are protected.



WHY STAYING A SOLE TRADER IN 2026 IS COSTING YOU MORE THAN YOU THINK

This isn't just about worst-case scenarios; it's about risk management. The bigger your business gets, the more exposed you are as a sole trader, and the more sense incorporation makes.

Compliance is easier than you think

The main reason people avoid incorporating is the perceived admin burden: filing annual accounts, submitting a confirmation statement, and meeting Companies House requirements. But in practice, if you're working with an accountant (which you should be), they handle most of this for you.

You'll also need to complete identity verification for directors and people with significant control, which became mandatory in 2024. This is a one-time process that's straightforward if you have the right ID documents. The sooner you incorporate, the sooner this is done, and you're compliant for the long term. The administrative cost of running a limited company is marginal compared to the tax savings and legal protection you gain.

Credibility and growth potential

Operating as a limited company also makes you look more established. Clients and suppliers often prefer working with limited companies because it signals professionalism and permanence. Some larger clients won't work with sole traders at all due to IR35 rules or their own procurement policies.

If you're planning to grow, raise capital, or eventually sell the business, a limited company structure is necessary. Incorporating early means you're building equity and value from day one, rather than scrambling to restructure later when opportunity arrives.

Need help?

Please contact us

