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# Sole Trader vs Limited Company Checklist

A decision checklist for UK founders weighing sole trader simplicity against limited company protection, credibility, tax planning and future growth.

This is one of the most-asked questions founders and freelancers ask, and it is also one where bad advice circulates online. Always go limited is wrong. Stay sole trader because it is simpler is also wrong.

The honest answer is that it depends. Work through liability, credibility, tax, admin and strategy before deciding.

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## Liability and risk

Probably the most important factor, and the one founders most often underweight.

- Could you be sued by a customer or supplier?** Limited liability protects your personal assets if the business is sued. Sole traders are personally liable for business debts.
- Do you sign contracts with significant financial exposure?** Limited company contracts are with the company, not you personally. A bad contract does not put your house at risk.
- Are you in a regulated or high-risk sector?** Construction, professional services, anything with potential negligence claims, the limited company structure is genuinely protective.
- Do you have personal assets worth protecting?** Property, savings, investments, pension. The more you have to lose, the more incorporation matters.
- Will you employ people?** Employer liability is significant. Most employers should be incorporated.

Limited liability is not absolute. Directors can still be personally liable for tax debts under HMRC personal liability notices, wrongful trading under the Insolvency Act 1986, and personal guarantees on loans. But for commercial liability to customers and suppliers, the protection is real.

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## Perception and credibility

Less talked about, but it matters more in some sectors than in others.

- Do your potential customers prefer to deal with limited companies?** Many corporate clients will not engage sole traders, especially at higher contract values.
- Are you trying to win procurement-led business?** Tenders, framework agreements, and corporate procurement processes often filter out sole traders.
- Are you seeking investment?** You will need to be a limited company. Investors take equity, you cannot issue shares as a sole trader.
- Are you exporting or operating internationally?** Limited companies travel more easily across borders, customs, and banking.
- Is your sector status-conscious?** Tech, consulting, agencies, finance, the limited company is often expected.

For some founders, perception alone justifies incorporation regardless of tax.

## Tax efficiency

Run the numbers, but treat tax as one factor among several.

- What is your expected annual profit?** Below GBP 30,000, sole trader is usually simpler and barely different on tax. GBP 30,000-GBP 50,000, marginal advantage to limited company. Above GBP 50,000, advantage to limited company grows. Above GBP 100,000, the limited company structure is meaningfully more efficient.
- Do you need all the profit to live on?** If yes, the salary-and-dividend split saves less, because you are drawing nearly everything out anyway.
- Can you leave profit in the company?** Retained earnings, pension contributions and future investment make incorporation more efficient.
- Can you split income with a spouse?** Limited companies allow share ownership splitting within HMRC anti-avoidance rules. Sole traders cannot.
- Do you have other income?** Employment, rental, dividends from elsewhere. Other income fills your tax bands first.
- Are you planning to make pension contributions?** Employer pension contributions through a limited company are corporation tax deductible.

From 6 April 2026, dividend tax rates increased by 2 percentage points. Combined with frozen personal allowances and the GBP 500 dividend allowance, the pure tax case for incorporation is weaker around the GBP 50,000 profit level than it used to be.

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## Admin and operational burden

Be honest about how much paperwork you actually want.

- Sole trader admin:** one annual Self Assessment return.
- Sole trader records:** keep records for 5 years after the relevant tax year.
- Sole trader filing:** no public filings and no statutory deadlines beyond Self Assessment.
- Limited company setup:** register with Companies House and HMRC.
- Limited company filings:** statutory accounts, corporation tax return and confirmation statement.
- Limited company records:** statutory registers for directors, shareholders and persons of significant control.
- Limited company payroll and dividends:** run formal payroll if taking salary and document dividends with board minutes and vouchers.
- Limited company deadlines:** around 20 statutory deadlines per year, plus monthly RTI if you run payroll.

Limited company accounts are public on Companies House, including a summary of your finances. Some founders dislike this transparency; others do not care. Know before you incorporate.

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## Strategic and exit considerations

These forward-looking factors often tip the decision.

- Are you building a business to sell?** Limited companies are sellable assets. Sole trader businesses are much harder to transfer.
- Are you planning to bring in a co-founder or partners?** You cannot share ownership of a sole trader business.
- Do you want to separate your business identity from yourself?** Some founders find the separation psychologically useful.
- What is your 5-year horizon?** If the business might scale, hire or attract investment, incorporate now to avoid a messy transition later.
- Are you drawing a state pension or pension benefits in the future?** Sole traders need to pay voluntary NI to maintain the state pension record. Limited company directors on salary at the secondary threshold get NI credits without paying NI.

## Quick context, the April 2026 change

From 6 April 2026, dividend tax rates increased by 2 percentage points: basic rate 10.75%, higher rate 35.75%. Combined with frozen personal allowances and the GBP 500 dividend allowance, the tax advantage of incorporation has narrowed significantly for businesses with profits around GBP 50,000.

The advantage still exists at higher profit levels and where strategic factors apply, but the pure tax case is weaker than it used to be. The non-tax factors now carry more weight.

## Worked example, GBP 60,000 profit in 2026/27

This is roughly the decision zone where it gets interesting. Both calculations assume profit of GBP 60,000 and the founder takes all available profit as personal income.

### As a sole trader

- Profit: GBP 60,000
- Income tax: GBP 11,432
- Class 4 NI: GBP 2,457
- **Total tax: GBP 13,889**
- **Take home: GBP 46,111**

## As a limited company, salary GBP 12,570 and dividends for the rest

- Employer NI on salary: GBP 1,136
- Corporation tax at 19%: GBP 8,796
- Personal tax on dividends: GBP 3,977
- **Total tax: GBP 13,909**
- **Take home: GBP 46,091**

At GBP 60,000 profit, the difference is essentially nil before factoring in additional admin burden and accountancy fees.

## How to actually decide

1. **Liability first:** if your sector or contracts create real personal financial risk, incorporate regardless of the tax maths.
2. **Perception second:** if your customers expect a limited company, incorporate.
3. **Strategy third:** if you are building toward investment, sale, or co-founders, incorporate.
4. **Tax fourth:** if the first three are neutral, run the actual numbers for your expected profit level.
5. **Admin last:** if every other factor is neutral and you genuinely value simplicity, sole trader is fine.

## A note on changing later

You are not locked in either way. Sole traders can incorporate later, and limited companies can be wound up if they are no longer needed. Treat the initial choice as the right structure for the next 2-3 years, not necessarily forever.

### BEFORE USING

This checklist is a decision aid, not tax or legal advice. The right answer depends on your contracts, personal risk, income needs, wider income, plans and tolerance for admin.

**Lean Ledger helps UK founders work through this decision properly, factoring in liability, tax and the long-term direction of the business.** [Book a discovery call](#) if you would like a second opinion before you incorporate, or before you stay sole trader.