

THE BENEFITS OF OPERATING A LIMITED COMPANY

Trading as a limited company has many benefits for the individuals involved. Possibly the most advantageous of these is the greater flexibility and opportunity for efficient tax planning.

TAX-EFFICIENT REMUNERATION

A limited company offers greater flexibility and more options when it comes to the taxation of profits and personal income.

As a sole trader, you are taxed on all the business profits in the year in which they arise. Income tax is charged at 20% on profits up to £37,700, 40% on profits between £37,701 and £150,000 and 45% on profits above £150,000. A limited company, by contrast, will pay Corporation Tax at a fixed rate of 19% on all the profits.

As a company shareholder, you also have more control over the level of taxation, as you can decide on the amounts and timings of salary and dividends you are paid in the tax year. The advantage that dividends have over salary is that the first £2,000 is tax-free, then tax becoming due at 8.75% up to £37,500, then 33.75% between £37,501 and £150,000 and over £150,000 at 39.35%. Unlike salary, dividends are not subject to National Insurance for either the employee or the employer, which is a huge advantage.

TAX RELIEF ON EXPENSES

Expenditure incurred wholly in conjunction with running the business can be claimed back as an expense. Trading via a limited company means you can claim a wide range of expenses such as accountancy fees, computers, software, phones, travel and many more. Please see our [Contractors Guide to Expenses](#) for more information.

LIMITED LIABILITY

Starting a new business always has some inherent element of risk. Operating via a limited company alleviates some of this. The shareholders of the company are only liable for company debts to the nominal value of the share capital held. Given that most small limited companies operate with a paid share capital of £1, this can offer added financial security compared to other trading options as your personal assets are not at risk.

A limited company is treated as a separate legal entity to its members. This has the benefit that any finance raised or contracts entered into are the responsibility of the company. The only real exception to this is where the company's creditors are defrauded, in which case you will incur unlimited personal liability.

IMPROVED PERCEPTION & CREDIBILITY

This can provide a business with a more credible and established image, potentially making it easier to secure a contract with a client, trade with suppliers or even raise finance. It gives customers and suppliers' confidence in dealing with you. In some instances, third parties may decide not to deal with a business that is not incorporated. Some larger corporations and those in the finance sector especially prefer to work exclusively with limited companies instead of sole traders.

SECURING YOUR TRADING NAME

Once incorporated, your limited company name is protected by law, meaning that no other company can use the same name (or a name too similar). Sole traders do not have this protection. Having this exclusivity stops anyone from using the same name and potentially damaging your reputation.

TAX PLANNING

Allowing you to set your own salary and paying dividends, a limited company offers flexible tax planning opportunities. For example, you can fund employees' executive pensions as a legitimate business expense. This can offer a tax advantage over those who are running their business as self-employed.

SUCCESSION PLANNING

When looking to exit from a business, it is often easier to transfer ownership of a limited company than another type of business. This could be to a family member or child.

MyAccountant.co.uk can help with all of the above; please contact your Account Manager on 0800 917 9100 for more information.