

## THINKING OF BECOMING A SOLE TRADER?



**SOLE TRADER**

If you're curious about what a sole trader is and how to register as one, this guide will reveal everything you need to know, including the pros and cons. This will help you explore what you need to know about a sole trader.

### **What is a sole trader?**

When you are both self-employed and the sole owner of your business, you're considered a sole trader.

Being a sole trader is often considered the simplest way of running a business – at least when the operation is a small one.

You have flexibility and full control over how you operate, overseeing its assets and benefitting from all profits after tax. This can be rewarding, but it also comes with a risk.

Sole traders are most commonly small businesses that provide a service to individuals, families of small/medium Employers (SMEs)

Sole traders don't have to register with Companies House, but they do have to maintain accounting records, pay income tax and file a self-assessment with HMRC every tax year.

### In this brochure you will find:

Advantage and Disadvantages of being a sole trader

What is the difference between a sole trader and a limited company?

How to register as a sole trader in business



## Disadvantages of being a sole trader

Working outside of a company structure has its drawbacks. The buck stops with you, so you take all responsibility for big decisions.

Some sole traders battle with striking a healthy work-life balance, since it's hard to know when to take time off.

Other disadvantages include:

- Sole traders have personal liability and aren't recognised as separate legal entities; perhaps the biggest drawback of being a sole trader. All the business debts and liabilities are yours. If you fail to pay your business debts, you'll need to pay the money owed from your own assets.
- If you have a bad accident or fall seriously ill, the responsibility of fulfilling existing contracts still sits with you. This can be stressful, or result in debt if you're unable to work.

When setting up your business, it's worth giving attention to these, planning around them and taking out business insurance where needed.

## Advantages of being a sole trader

Being your own boss means you set the rules, so you have full control, allowing more flexibility, and freedom to make quick decisions without the need for any board or shareholder approval.

There are other advantages to being a sole trader, including:

- Sole traders are quick to set up and have fewer statutory obligations
- You don't have to register a company name or complete any Companies House forms.
- Sole traders have an easier accounting job
- You don't need to meet the same accounting standards as limited companies. All you need to do is maintain a record of your invoices and expenses and send details of your profits in your annual self assessment tax return.
- Sole traders can keep the profits. You also personally own all the assets used in the business.
- Sole traders can keep their financial information private
- As you don't have to give any information to Companies House, there's less publicly accessible information on you. This can give you a competitive advantage since competitors can't see how well (or badly!) you're doing.

Sole traders can change their minds as they grow. It's easy to move from being a sole trader to a limited company, but more tedious the other way around.

## What is the difference between a sole trader and a limited company?



	Sole Trader	Limited Company
Ownership	The sole trader is the owner	Shareholder(s) own the business. It is managed
Management	Manages the business.	By at least one director, who can also be a shareholder.
Legal status	No legal distinction between the business & the owner	Separate legal entity distinct from its directors & shareholders.
Liability	The owner is personally responsible for business decisions and consequences. Individuals can consider buying insurance to cover themselves from personal liability.	The company, and not its owners, is responsible for any harm done to other stakeholders. The limited company director or senior manager may be held personally accountable for wrongdoing.
Tax on profits (more on this on the next page)	<p>The self-employed trader is required to</p> <ul style="list-style-type: none"> <li>• Pay income tax on profit through self assessment</li> <li>• Pay class 2 and class 4</li> <li>• National Insurance Contributions (NICs)</li> </ul>	<p>Tax obligations of limited liability companies include</p> <ul style="list-style-type: none"> <li>• Corporation tax on profits, which is lower than income tax.</li> <li>• Employees and some officers are subject to PAYE and NICs</li> <li>• Shareholders are subject to tax on dividends.</li> </ul> <p>You can decide to leave profits in your business and extract them in another financial year.</p>



## How do you register as a sole trader?

To register as a sole trader, you need to contact HMRC. Let them know you're self-employed and will be paying tax as a sole trader.

When you start working as a Sole Trader, you will need to register as self employed with HMRC by 5 October in your business's second tax year. You could be fined if you do not.. This will enable you to complete your online tax return when you need to. This is a really straightforward process - and nothing to be worried about!

The tax year runs from April to April. For example the last tax year started on 6 April 2023 and ended on 5 April 2024.

The deadline for submitting your online tax return is normally 31st January. So the deadline to submit your tax return for the tax year 6 April '24 - 5th April '25 would be 31st January '26.

You will need to follow these steps in order to register for self assessment tax returns:

- If you have not filed a tax return before you will need to register for Self Assessment and Class 2 National Insurance through your business tax account.
- You'll need a Government Gateway user ID and password to sign in. If you do not have a user ID for a business tax account, you'll be able to create one.
- Go to <https://www.gov.uk/register-for-self-assessment/self-employed> to begin the process. You can do this at any time after the year end and before the deadline.



If you are in any way unsure about the information you should input in to your own application you can speak to Maria Arkell at Accountable Web, or seek advice from the HMRC helpline (Mon-Fri 8am - 6pm 0300 200 3310)

Once you've completed the questions, HMRC will create your account.

You'll get a letter in the post containing your Unique Taxpayer Reference (UTR) number within 10 days. Make sure you keep this in a safe place as you'll need this to file your tax return.

You'll then receive another letter with an activation code for your account. (again make sure you keep this somewhere safe but don't worry if you do lose it - you can get a new activation code).

Once you've activated your account, you can file your tax return any time before the deadline.

You are also able to register by post if needed and details can be found on the HMRC website