

Sloane Walker – Chartered Certified Accountants

Fact sheet 101

Should I incorporate my business?

Firstly what is meant by incorporate?

Well simply put, if a business incorporates, it **changes its legal form**. For instance, imagine you are an electrician and you work for yourself. You are self employed and each year you submit an Income Tax return to HMRC. You would pay national insurance at 8% and income tax at 20% on earnings over a certain amount.

However, you have heard from ‘Big Steve’ in the pub that he has ‘incorporated’ and is now *paying much less tax*. So what does it mean to ‘incorporate’ and should you do it?

Incorporation involves setting up a limited company. You would become a shareholder and a director of the new company. You need to select a unique name that no other company currently uses.

Advantages of incorporation

Instead of paying income tax and national insurance on your self employed profits, the company pays ‘corporation tax’, this is currently 21%.

If you decide to sell part or all of your business or retire it can be easier to sell the shares in the company.

Some may view a limited company as being more reputable and therefore some may be more inclined to use your business.

The owner enjoys ‘limited liability’. This means that if the company should fail and become insolvent, then the shareholders home and personal belongings are normally not at risk.

Disadvantages of incorporation

More paperwork! There are far more rules and regulations to comply with than for the self employed.

Your accounts must be filed at Companies House, and the public can gain access to this information. You can send in very abbreviated information if you prefer, most smaller companies do, and this reduces the amount of information that your competitors can see.

If you decide to finish trading then there are far more rules to abide by.

Most of the tax savings are enjoyed on the route INTO becoming a limited company, on the way out the tax savings are very few, in fact there can be tax costs to consider.

This guide is not intended to replace the advice of a qualified accountant. Please contact Sloane Walker on 01404 812355 for further assistance.