ZAZEN TAX

Am I Ready to Go Limited?

A checklist of signals rather than a list of tasks. About an hour, and it may well tell you to stay exactly where you are.

Business .... **Completed by** .... **Date** ....

This checklist is deliberately not a funnel. On current rates, taking everything out of a company costs slightly more tax than being a sole trader at most profit levels a small business operates at, so the honest answer for a good many people is to stay put.

Work through the three lists of signals, count your ticks, and read the guidance in section four before doing anything.

1. Signals that genuinely point to a company about 10 minutes

- [ ] **You reinvest most of your profit rather than living on it**
  This is the strongest signal of all. Leave profit inside a company and only corporation tax applies; the dividend tax waits until you take it out.
- [ ] **You hold significant stock, or take customer money in advance**
  Both create exposure. A company is a separate legal person, so its debts are generally its own rather than yours.
- [ ] **You sell something that could injure someone or cause a claim**
  Product liability is the clearest case for limited liability there is.
- [ ] **You expect to bring in a partner, an investor or a key employee**
  A company can issue shares. A sole trade cannot, and transferring one later is harder than starting right.
- [ ] **You might sell the business within a few years**
  Selling shares in a company is a different and often better outcome than winding down a sole trade.
- [ ] **You could make meaningful pension contributions from the business**
  A company pension contribution is deductible against corporation tax and avoids National Insurance entirely. For a higher earner this is frequently the largest single lever available.
- [ ] **A customer or supplier has actually said they prefer a company**
  Said, not assumed. Some trade accounts and tenders genuinely require it. It is worth asking rather than guessing.
- [ ] **Your profits are heading well above £120,000 and you will not need it all**
  The retention argument gets stronger as profits rise, because the deferred dividend tax gets larger.

Ticks in section one ....

2. Reasons that used to count, and no longer do about 5 minutes

If any of these is why you were thinking about it, take it out of your total before you go any further.

- [ ] **My profit has passed thirty thousand pounds**
  The old rule of thumb. On 2026/27 rates a sole trader at £30,000 keeps £1,064.75 more than a company owner extracting the same profit.
- [ ] **Somebody told me a company would save me tax**
  Ask them to show the arithmetic. At £60,000 the two are £20.20 apart, and at £120,000 the sole trader is ahead by £2,257.03.
- [ ] **I want to pay myself in dividends instead of salary**
  Dividend rates rose again in April 2026, to 10.75 per cent at the basic rate and 35.75 at the higher rate. The mechanism that used to produce the saving is what has been taxed harder.
- [ ] **It will look more professional**
  Sometimes true, and worth testing by asking the customers and suppliers who would actually care rather than assuming they do.
- [ ] **Everyone else in my niche has one**
  Not a reason. Their profits, their plans and their attitude to risk are not yours.

Here is the arithmetic behind that section, assuming a single-director company taking a £12,570 salary and extracting everything else as dividends.

Profit	Sole trader keeps	Company keeps	Difference
£30,000	£25,468.20	£24,403.45	sole ahead £1,064.75
£60,000	£46,111.40	£46,091.20	level, £20.20 apart
£120,000	£76,911.40	£74,654.37	sole ahead £2,257.03

> WHICH IS WHY SECTION ONE IS ABOUT RETENTION, NOT RATES
>
> The company still wins decisively on profit you do not take out. At £120,000 of profit its immediate tax bill is £18,670.56 lower, because the dividend tax waits until you extract the money. That is a deferral rather than a saving, and it is the real case for incorporating.

3. Signals that point to staying as you are about 10 minutes

- [ ] **You need most of the profit to live on**
  Then the comparison above is your answer, and it does not favour a company.
- [ ] **Your profits are volatile or still finding their level**
  A company adds fixed costs and obligations that do not shrink in a bad year.
- [ ] **You value the simplicity of one return and one set of records**
  A company means a company tax return, statutory accounts, Companies House filings, payroll and your own Self Assessment on top.
- [ ] **You would rather your accounts were not public**
  Company accounts and directors' names are published. Competitors can and do look.
- [ ] **You move money between business and personal accounts freely**
  In a company that is a director's loan every time, with a tax charge if it is still overdrawn nine months after the year end.
- [ ] **An extra few hundred pounds a year of fees would sting**
  That is roughly what the additional compliance costs, against a tax difference that is currently zero or negative.
- [ ] **You are within a year of a big change anyway**
  A move abroad, a partner joining, a different business model. Incorporating and then restructuring is worse than waiting and doing it once.

Ticks in section three ....

4. Reading your answers about 5 minutes

Compare your two totals, having removed anything from section two.

Where you landed	What it suggests
No ticks in section one	Stay as you are. There is no case here yet, and there is no rush to make one.
Section one, and more in three	Stay for now and revisit in six months. Note which section one signal would have to change.
Roughly level	It is a judgement rather than a calculation. Worth a conversation, because the deciding factor is usually specific to you.
More in one than in three	There is a real case. Work through sections five and six before acting on it.
Ticked the first item in section one	That one signal outweighs most of the rest. If you genuinely reinvest your profit, the retention argument is strong regardless of the totals.

> ONE THING NO CHECKLIST CAN SCORE
>
> Whether limited liability matters to you. If a claim against the business would reach your house, that single fact can settle the question on its own whatever the arithmetic says, and it is not something to weigh against a few hundred pounds of fees.

5. If you are going ahead: practical readiness about 15 minutes

- [ ] **You can keep company money entirely separate from your own**
  Not a preference, a requirement. Company money is not yours until it is paid out as salary or dividend.
- [ ] **You understand what a director's loan is before you create one**
  Any withdrawal that is not salary or dividend is a loan. Overdrawn nine months and a day after the year end, it costs the company 35.75 per cent of the balance.
- [ ] **You have budgeted for the extra accountancy and filing**
  Commonly several hundred pounds a year more than a sole trader's accounts.
- [ ] **You are ready to run a payroll, even for one director**
  Registration with HMRC before the first payment, and filings every month thereafter.
- [ ] **You know which platform and payment accounts will need transferring**
  They are held in the name of the legal entity. Some marketplaces make this slow and verification-heavy.
- [ ] **You have checked whether any supplier or finance agreement blocks a transfer**
  Trade credit accounts and finance agreements frequently do.
- [ ] **You know your VAT position transfers with the business**
  Incorporating does not reset the £90,000 threshold, and the registration usually needs transferring rather than restarting.
- [ ] **You accept the deadlines multiply**
  Accounts, corporation tax, a company tax return, a confirmation statement, monthly payroll, and your own Self Assessment on top.

6. Getting the timing right about 15 minutes

- [ ] **Pick a start date rather than drifting into one**
  Mid-year incorporation means two sets of accounts for one trading year and two tax positions to reconcile.
- [ ] **Check the company name is available and not too close to someone else's**
  Companies House will reject confusingly similar names, and an objection can force a change later.
- [ ] **Decide what happens to the existing trade**
  Assets, stock and goodwill transfer to the company. How that is done has tax consequences worth getting right first time.
- [ ] **Register for corporation tax within three months of trading**
  Incorporating at Companies House is not the same as registering for tax, and the second step gets missed regularly.
- [ ] **Tell HMRC the sole trade has ceased**
  You will still have a final Self Assessment covering the period up to cessation.
- [ ] **Diarise the new deadlines the day the company exists**
  Especially the corporation tax payment, which falls three months before the return that calculates it.

> THE MOST EXPENSIVE VERSION OF THIS DECISION
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> Not choosing wrongly. Choosing once, years ago, on advice that was correct at the time, and never revisiting it. Six rate changes have gone against company owners recently. If you incorporated on the old rule of thumb and have not looked since, look.

Free tools to run your own numbers

The seller take-home, corporation tax, dividend tax and payslip calculators on zazentax.com will put your own figures through both structures, and each comes as an Excel workbook. Our guide Sole Trader or Limited Company works the comparison through in full at three profit levels.

Zazen Tax

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General information, not advice for your circumstances. Figures use 2026/27 rates for England, Wales and Northern Ireland and assume a single-director company extracting all profits. Scottish income tax bands differ. Rates change.