ZAZEN TAX

Sole Trader or Limited Company

The e-commerce edition, with the numbers worked through at three profit levels on 2026/27 rates

The answer moved in April 2026. This book shows where it moved to.

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What is in this book

Almost every guide to this question was written when a limited company saved you money on any profit worth having. Dividend rates have risen twice since then, corporation tax has gone from nineteen per cent to twenty-five, and employer National Insurance went up in 2025. The received wisdom has not caught up.

This book does the arithmetic from scratch on 2026/27 rates, at three profit levels, and tells you honestly what it finds. Some of what it finds is not what you will read elsewhere.

The question, and why the answer moved

Should I incorporate? It is the most common question a growing business asks, and for twenty years the answer was a rule of thumb: once you are making more than about thirty thousand, go limited.

That rule of thumb was correct when it was coined. Corporation tax was nineteen per cent on everything, dividends were taxed lightly, and the gap between paying yourself in dividends and paying yourself as a sole trader was worth several thousand pounds a year.

Three things have happened since. Corporation tax rose to twenty-five per cent for larger profits in 2023, with an effective twenty-six and a half per cent on the band between fifty thousand and two hundred and fifty thousand. Employer National Insurance rose to fifteen per cent in 2025, with the threshold cut to five thousand. And in April 2026 dividend tax rose again, to 10.75 per cent at the basic rate and 35.75 at the higher rate.

Each change on its own was survivable. Together they have closed the gap, and at the profit levels most online sellers actually operate at, they have closed it completely.

> **WHAT THIS BOOK ASSUMES**
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> A single-director company with no other employees, so no Employment Allowance, taking a salary of £12,570 and everything else as dividends. Rates for England, Wales and Northern Ireland for 2026/27. All profits extracted in the year they are earned. Every one of those assumptions is examined later, because changing some of them changes the answer.

1 How a sole trader is taxed

Simply, and all at once.

As a sole trader there is no separation between you and the business. The profit the business makes is your income, whether you take it out or leave it in the bank account. You pay income tax on it and Class 4 National Insurance on it, through one Self Assessment return.

The rates that apply

Band	Income tax	Class 4 NI
Up to £12,570	nothing, personal allowance	nothing
£12,570 to £50,270	20%	6%
£50,270 to £125,140	40%	2%
Over £125,140	45%	2%

There is one trap in that table that is easy to miss. Between £100,000 and £125,140 the personal allowance is withdrawn at £1 for every £2 of income, which means income in that band is effectively taxed at around sixty per cent rather than forty. It matters for the third worked example.

Class 2 National Insurance, which used to be a separate weekly charge, was abolished as a compulsory payment in April 2024. Self-employed people with profits above the small profits threshold now get their State Pension credit through Class 4 without a separate bill.

> THE SIMPLICITY IS WORTH SOMETHING
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> One return, one set of accounts, no Companies House, no separate bank account required by law, nothing published about your business publicly. That has a value which does not appear in any tax comparison, and for a business making thirty thousand a year it can be the deciding factor.

2 How a company owner is taxed

Twice, in two stages, with a gap in between.

A company is a separate legal person. It earns the profit, and it pays corporation tax on that profit. What is left belongs to the company, not to you. To get it into your hands you have to take it out, usually as a mix of salary and dividends, and that extraction is taxed again in your own hands.

The two stages

- Stage one, the company. Corporation tax at 19 per cent on profits up to £50,000, 25 per cent from £250,000, and an effective 26.5 per cent on everything in between because of the way marginal relief tapers.
- Stage two, you. A salary is deductible for the company but attracts employer National Insurance at 15 per cent above £5,000 and, above £12,570, employee National Insurance and income tax. Dividends are not deductible, and are taxed at 10.75, 35.75 or 39.35 per cent depending on your band, after a £500 allowance.

Why the salary is almost always £12,570

A salary reduces the company's profit, so it saves corporation tax at 19 to 26.5 per cent, but it costs employer National Insurance at 15 per cent above £5,000. Because the corporation tax saved exceeds the National Insurance paid, a salary up to the personal allowance is worth taking. Above £12,570 the employee also starts paying income tax and National Insurance, and it stops being worth it.

Every calculation in this book uses a £12,570 salary for that reason. It was not assumed: I tested every salary from zero to fifty thousand in ten pound steps at each profit level, and £12,570 came out best each time.

> ONE ASSUMPTION WORTH KNOWING ABOUT
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> A company whose only employee is its director cannot claim the £10,500 Employment Allowance. Take on a second employee and the picture shifts, because the allowance then covers the employer National Insurance on a larger salary. If you employ anyone at all, the numbers in this book understate the company's case.

3 Thirty thousand pounds of profit

The level at which the old rule of thumb said you should already have incorporated.

	Sole trader	Limited company
Profit before anything	£30,000	£30,000
Salary	n/a	£12,570
Employer National Insurance	n/a	£1,135.50
Profit chargeable to corporation tax	n/a	£16,294.50
Corporation tax at 19%	n/a	£3,095.95
Dividends available	n/a	£13,198.55
Income tax	£3,486.00	nil
National Insurance on you	£1,045.80	nil
Dividend tax	n/a	£1,365.09
Total tax and NI	**£4,531.80**	**£5,596.55**
What you keep	**£25,468.20**	**£24,403.45**

The sole trader is better off by £1,064.75, which is a little over three and a half per cent of the profit. The company has paid more tax in total despite the corporation tax rate being only nineteen per cent, because the employer National Insurance on the salary and the dividend tax on the extraction together outweigh the difference.

> AT THIS LEVEL
>
> There is no tax case for incorporating. If you are making thirty thousand and someone has told you a company will save you money, ask them to show you the arithmetic. There may still be good non-tax reasons, and chapter nine covers them, but saving tax is not one of them.

4 Sixty thousand pounds of profit

Comfortably into higher rate territory, and the closest the two structures come.

	Sole trader	Limited company
Profit before anything	£60,000	£60,000
Salary	n/a	£12,570
Employer National Insurance	n/a	£1,135.50
Profit chargeable to corporation tax	n/a	£46,294.50
Corporation tax at 19%	n/a	£8,795.95
Dividends available	n/a	£37,498.54
Income tax	£11,432.00	nil
National Insurance on you	£2,456.60	nil
Dividend tax	n/a	£3,977.34
Total tax and NI	**£13,888.60**	**£13,908.80**
What you keep	**£46,111.40**	**£46,091.20**

Twenty pounds and twenty pence apart, on sixty thousand pounds of profit. For practical purposes these two structures cost exactly the same, and any decision made on the tax alone at this level is a decision made on noise.

It is worth pausing on how remarkable that is. Sixty thousand of profit is squarely where the old rule of thumb promised a company would save you thousands. On 2026/27 rates it saves you nothing at all.

> AT THIS LEVEL
>
> The tax is a coin flip, so decide on everything else: whether you want limited liability, whether your customers or suppliers care, whether you can live with public accounts, and whether you actually need all the money each year. That last one is the subject of chapter seven, and it is the one that changes answers.

5 A hundred and twenty thousand pounds of profit

High enough that the personal allowance is disappearing, and the company is still behind.

	Sole trader	Limited company
Profit before anything	£120,000	£120,000
Salary	n/a	£12,570
Employer National Insurance	n/a	£1,135.50
Profit chargeable to corporation tax	n/a	£106,294.50
Corporation tax, marginal band at 26.5%	n/a	£24,418.04
Dividends available	n/a	£81,876.46
Income tax	£39,432.00	nil
National Insurance on you	£3,656.60	nil
Dividend tax	n/a	£19,792.08
Total tax and NI	**£43,088.60**	**£45,345.63**
What you keep	**£76,911.40**	**£74,654.37**

The sole trader is ahead by £2,257.03. Two things are working against the company here. Its profits sit in the marginal relief band, so it is paying an effective 26.5 per cent rather than 19, and the dividends are large enough that most of them fall into the 35.75 per cent higher rate.

The sole trader is not having an easy time either. Their personal allowance has tapered from £12,570 down to £2,570, which is what makes their income tax bill £39,432 on £120,000 of profit. But even with that penalty they are ahead.

> THE PATTERN ACROSS ALL THREE
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> At £30,000 the sole trader is ahead by about £1,065. At £60,000 they are level. At £120,000 they are ahead by about £2,257. There is no profit level in that range where taking everything out of a company beats being a sole trader on tax alone.

6 Why the answer changed

Three separate changes, none of them aimed at you, all landing on the same decision.

Corporation tax stopped being nineteen per cent

From April 2023, profits above £50,000 started attracting more than nineteen per cent, and profits between £50,000 and £250,000 an effective 26.5 per cent. A company making comfortable profits is no longer paying a flat low rate before the owner is taxed at all.

Dividend tax rose twice

The dividend allowance fell from £2,000 to £1,000 to £500. Then in April 2026 the rates themselves rose two points, from 8.75 to 10.75 per cent at the basic rate and from 33.75 to 35.75 at the higher rate. Dividends were the whole mechanism by which company owners came out ahead, and taxing them harder removes the advantage directly.

Employer National Insurance rose and its threshold fell

From April 2025 employer National Insurance went to 15 per cent and the threshold at which it starts fell to £5,000. A director paying themselves a £12,570 salary now generates £1,135.50 of employer National Insurance where the same salary once generated almost none.

What that looks like together

	A few years ago	Now	Direction
Corporation tax, £60k profit	19%	19%	unchanged
Corporation tax, £120k profit	19%	26.5% marginal	worse
Dividend allowance	£2,000	£500	worse
Dividend basic rate	7.5%	10.75%	worse
Dividend higher rate	32.5%	35.75%	worse
Employer NI rate	13.8%	15%	worse
Employer NI threshold	£9,100	£5,000	worse

Not one of those moved in the company's favour. The rule of thumb did not become wrong through anyone's error; it became wrong because the ground moved underneath it, six times in a row, in the same direction.

7 Where a company still wins, decisively

On money you do not take out.

Every calculation so far assumed you extract all the profit in the year you earn it. That is the right assumption for someone who needs the money to live on, and it is the assumption that makes the company lose.

But a company does not have to distribute anything. If you leave profit inside it, the only tax paid is corporation tax. The dividend tax simply does not arise until you take the money out, which might be next year, or in a year when your other income is lower, or never, because you sold the business instead.

The same profits, left inside the company

Profit	Sole trader pays now	Company pays now
£60,000	£13,888.60	£8,795.95
£120,000	£43,088.60	£24,418.04

At £120,000 of profit the company's immediate tax bill is £18,670.56 lower. That is not a saving, it is a deferral: take the money out later and the dividend tax arrives then. But a deferral of eighteen thousand pounds is worth a great deal, particularly to a business that wants to buy stock with it.

What that deferral is actually for

— Buying stock. An e-commerce business that reinvests everything in inventory is exactly the case where retaining profit matters, because the money is going back into the business rather than into a personal account.

— Smoothing income. Take dividends in a year when your other income is low, or split them across two tax years, and you can keep more of them in the basic rate band.

— Pension contributions. A company pension contribution is deductible against corporation tax, avoids National Insurance altogether, and does not count as extraction. For higher earners this is frequently the single largest lever available.

— Selling the business one day. You cannot sell a sole trade as a share sale. Business Asset Disposal Relief on a company share sale is a different and often better outcome than winding down a sole trade.

> THE HONEST SUMMARY OF THIS CHAPTER
>
> Incorporation is no longer a way to pay less tax on the money you spend. It is a way to defer tax on the money you do not. If you need every pound of profit to live on, that deferral is worth nothing to you. If you are reinvesting most of it, it may be worth more than everything else in this book.

8 The costs nobody puts in the comparison

A company costs real money to run, and the comparisons you find online almost never include it.

Set against a tax difference of nil to two thousand pounds, running costs matter enormously. Here is what changes when you incorporate.

	Sole trader	Limited company
Annual accounts	simple	statutory format, filed publicly
Tax returns	one	company return plus your own
Companies House	none	accounts and confirmation statement
Payroll	none	usually required, even for one director
Typical accountancy fee	lower	commonly several hundred more
Money you can just take	all of it	only by salary or dividend

The last row is the one that catches people. As a sole trader, money in the business bank account is your money and you can move it whenever you like. In a company it is not, and taking it without declaring it as salary or dividend creates a director's loan, which brings its own tax charge if it is still outstanding nine months after the year end.

Add a few hundred pounds of extra accountancy fees to a tax difference that we have just established is somewhere between nothing and slightly negative, and the case for incorporating on financial grounds alone becomes very hard to make at these profit levels.

> **DEADLINES DOUBLE AS WELL**
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> A sole trader has one date that really matters: 31 January. A company owner has accounts to Companies House nine months after the year end, corporation tax nine months and one day after it, a company tax return twelve months after it, a confirmation statement on its own cycle, payroll filings every month, and their own Self Assessment on top.

9 The reasons that have nothing to do with tax

Which, given the tax is roughly a wash, are now the reasons that decide it.

Limited liability, properly understood

A company is a separate legal person, so its debts are generally its own. If the business fails owing money, creditors pursue the company rather than your house. This is the single strongest argument for incorporating and it is genuinely important for a business holding stock, taking customer money in advance, or selling anything that could injure someone.

It is not absolute. Directors who trade while insolvent, or who give personal guarantees, remain exposed. Most small company overdrafts and many supplier credit accounts come with a personal guarantee, which quietly removes the protection for exactly the debts most likely to arise.

How you are perceived

Some customers, and rather more suppliers and wholesalers, prefer dealing with a limited company. Trade accounts are sometimes only opened for companies. Whether that matters depends entirely on who you sell to and who you buy from, and it is worth asking them rather than guessing.

Selling, raising money, bringing someone in

A company can issue shares. That makes it possible to bring in a partner, reward a key employee, take investment, or sell the business as a going concern. None of those are available to a sole trade in the same way. If any of them are plausible within a few years, incorporate early rather than trying to transfer a trade later.

Privacy, in the other direction

A company's accounts and its directors' names and part-addresses are public. Competitors can look you up. Some people find that uncomfortable, and it is a legitimate reason to stay a sole trader if the tax is neutral anyway.

10 What this means if you sell online

Four things specific to e-commerce that shift the balance one way or the other.

Stock changes the retention argument

A shop that reinvests its profit in inventory is the textbook case for a company, because the profit never needs to reach your personal account. If your business is growing and every pound goes back into stock, chapter seven is the chapter that matters and the company case is strong regardless of the extraction comparison.

Platform accounts are a genuine nuisance to move

Payment processors, marketplace accounts and trade suppliers are all held in the name of the legal entity. Incorporating means re-registering some or all of them, and on some platforms that is a slow, verification-heavy process. Doing it before you scale is far easier than doing it after.

VAT registration is unaffected by the choice

The £90,000 threshold applies to the business, whichever structure it takes. Incorporating does not reset it, and HMRC will look through an artificial separation of one business into two entities to keep both below the threshold. If you are approaching the threshold, that is a separate and more urgent conversation than this one.

Directors' loans catch out sellers in particular

An owner who is used to moving money freely between a business account and a personal one will keep doing it after incorporating, and each of those movements is now a director's loan. Left overdrawn nine months after the year end, it triggers a tax charge for the company at 35.75 per cent of the balance. It is entirely avoidable and it catches people every year.

> IF YOU ARE ABOUT TO CROSS £90,000
>
> Deal with VAT first and structure second. Registration changes your pricing, your margins and your cash flow considerably, and the answer to the incorporation question can be different before and after you have absorbed it.

11 So which one?

Here is the honest summary, given what the arithmetic actually shows.

Stay a sole trader if

- You need most of the profit to live on, at any of these profit levels. The extraction comparison is neutral at best and negative at worst, and you avoid the extra costs and deadlines entirely.
- Your profits are around thirty thousand and you have no particular liability exposure.
- You value simplicity and privacy, and nobody you trade with cares about your structure.

Incorporate if

- You are reinvesting most of your profit, particularly in stock. The deferral is real and at higher profits it is large.
- Liability genuinely worries you, because of what you sell, how much stock you hold, or how much customer money you hold in advance.
- You expect to bring someone in, take investment, or sell within a few years.
- You can make full use of company pension contributions, which is often the largest single lever for a higher earner and does not appear in any of the tables in this book.

And a warning about rules of thumb

Including the ones in this book. Every figure here assumes a single director, no other employees, all profit extracted, and 2026/27 rates in England, Wales and Northern Ireland. Change any of those and the numbers move. Employ your spouse and the Employment Allowance comes into play. Make a large pension contribution and the comparison shifts materially towards the company. Live in Scotland and the income tax bands are different.

> **THE ONE THING WORTH DOING**
>
> Run your own numbers rather than trusting anyone's threshold, including ours. The gap in either direction is small enough at these profit levels that your specific circumstances, rather than a general rule, will decide it.

What to do next

Three steps, in order.

Work out your actual profit

Not your turnover, and not what is in the bank. Profit after every allowable cost, including the ones people forget: mileage, working from home, and the stock you have bought but not yet sold. If that number is not reliable, nothing built on top of it will be either.

Decide how much of it you actually need

This is the question that decides the answer, and it is the one nobody asks first. If you need all of it, the tax comparison in chapters three to five is your answer and it does not favour a company. If you need half of it, the deferral in chapter seven is worth modelling properly.

Then ask someone to check the specifics

Pensions, a spouse on the payroll, an existing loan account, a plan to sell, an imminent VAT registration: each of these can move the answer by more than the whole tax difference this book has been discussing. They are also exactly the things a general guide cannot know about you.

> FREE TOOLS THAT DO THIS ARITHMETIC
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> The seller take-home, corporation tax, dividend tax and payslip calculators on zazentax.com will run your own figures through both structures, and each comes as an Excel workbook. They use the same rates as this book.

A closing thought

The most expensive version of this decision is not choosing wrongly. It is choosing once, several years ago, on advice that was correct at the time, and never revisiting it. Rates have moved six times in the wrong direction for company owners in the last few years. If you incorporated on the old rule of thumb and have not looked since, it is worth looking.

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