

Sole Trader or Limited Company: Taking Money Out of Your Business

*How the tax compares in 2026/27 and why the gap is smaller than it used to be, **so choose on the full picture.***

Why this matters

Most people ask which structure saves the most tax. The better question is how much profit you need to take out personally. Dividend tax rose by two percentage points in April 2026, which has narrowed the old limited company advantage for owners who draw everything out. Figures are for 2026/27 in England, Wales and Northern Ireland (Scottish income tax bands differ).

The two structures side by side

	Sole trader	Limited company
Who is taxed	You, on all profit, drawn or not	The company pays corporation tax, then you pay tax on what you take
Business tax	None as such	19% up to £50,000 profit, 25% above £250,000, marginal relief between
Income tax	20% / 40% / 45% above the £12,570 personal allowance	Same on salary. Dividends: 10.75% / 35.75% / 39.35% after a £500 allowance
National Insurance	Class 4: 6% from £12,570 to £50,270, then 2%. Class 2 credited above £7,105 profit	8% employee NIC above £12,570, 15% employer NIC above £5,000. None on dividends
Getting money out	Draw what you like, as it is already taxed	Salary, dividends, pensions and expenses. Dividends only from post-tax profit
Leaving profit in	Not possible, as it is taxed either way	Corporation tax only, with personal tax when you extract it later
Admin and cost	Self-Assessment only	Accounts, Companies House, payroll, CT600, usually higher fees
Liability	Unlimited personal liability	Limited to company assets, apart from personal guarantees, unless trading insolvency

A worked example at £60,000 profit

All profit withdrawn; the company pays a £12,570 salary and the rest as dividends. An approximate illustration, not tailored advice.

	Sole trader	Limited company
Income tax	About £11,430	£0 on salary
National Insurance	About £2,460 (Class 4)	About £1,135 (employer NIC)
Corporation tax	None	About £8,800 (19%)
Dividend tax	None	About £3,980
Left in your pocket	About £46,100	About £46,100

When each structure tends to win

- A limited company usually suits you when you can leave a good share of profit in the business, for example to reinvest or build reserves
- It can also help at higher profit levels, if you pay yourself through employer pension contributions, or if you want limited liability protection
- Sole trading tends to win on simplicity and cost where profits are lower and you need all of it personally

Other points that matter in practice

- Loss relief: sole trader losses can be set against other income, which is more flexible than company losses
- Director's loan account: taking more than your salary and dividends creates a director's loan, which can trigger a 33.75% charge on the company if it is still outstanding nine months after year end
- Personal charges still apply: the High Income Child Benefit Charge and student loan repayments reach a director's dividends too

KEY TAKEAWAY

At around £60,000 profit with everything drawn out, the take-home pay is roughly the same either way, so the extra admin cost of a company needs a reason. Retaining profit, higher earnings, pensions, company size perspective and liability protection are the usual reasons. This guide is general information, not tax advice, so have your numbers modelled before you incorporate.

What to do next

- Estimate your profit for the next 12 months and how much you need to draw personally
- Work out how much, if any, you could comfortably leave in the business
- Book a free chat with us and we will model both options on your real figures