

The Acorn

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A regular bulletin for growing businesses in Argyll & Bute

Starting a Business?
What structure?

One of the first choices when starting a business is how to run it. Many people begin as a sole trader because it is simple and low cost. But if the business is expected to grow, employ people, or one day be sold, a limited company may well be a better option.

In this article we take you through the pros and cons of the different options and offer practical advice on next steps.



By Christopher Cox
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Building a business, not just creating a job

As a sole trader, there is very little legal separation between the owner and the business. In simple terms, the person is the business.

A limited company is different. It is a separate legal entity. It has its own bank account, can sign contracts, own assets and owe money in its own name.

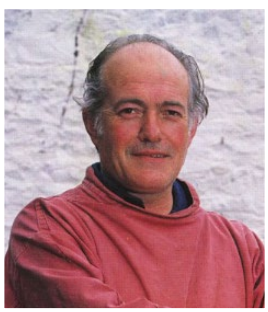
This matters more as the business grows. It helps the owner see the business as something with value of its own, not just a way to earn a personal income.

Supporting Small Businesses in Argyll & Bute

S J NOBLE TRUST

www.sjnobletrust.scot

The Trust was set up in 2004 in memory of Johnny Noble, co-founder of Loch Fyne Oysters, who died in 2002. Johnny was a well-spring of innovative ideas and encouraged others with realistic enthusiasm. He was fond of saying that stout oaks grew from small acorns.



The Sessile Oak whose acorns are pictured above was known in Gaelic as Rìgh na Coille 'the king of the forest'. It represented the very best characteristics of human beings – strong, tall, durable and providing protection under its canopy.



Limited Company advantages

A limited company can help protect the owner

One main reason to set up a limited company is limited liability. If the business gets into financial trouble, the company is responsible for its debts, rather than the owner being personally responsible for all of them.

There are exceptions. A lender may ask for a personal guarantee, and directors can be liable if they act wrongly.

It can make the business look more established

Being a limited company gives customers, suppliers, and partners more confidence. It shows that a formal structure has been put around the business.

Some larger organisations find it easier to deal with limited companies, especially when choosing suppliers or agreeing contracts.

"Being a limited company gives customers, suppliers, and partners more confidence."

It gives the business a better structure for growth

A sole trader business is closely tied to one person. A limited company can grow beyond its founder. A company can bring in partners, issue shares and potentially be sold in the future.

If the ambition is to build something with value of its own, rather than simply earn income from personal time, a limited company helps.

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It can help keep money in the business

A limited company allows more choice about when to take money out of the business.

The owner does not always have to take all the profit personally as soon as it is earned. Money can stay in the company to fund equipment, staff, or future growth.

The tax position is not simple. The overall tax burden depends on the company's profits and how money is taken out.

It gives a clearer view of the finances

A limited company encourages the understanding that the company's money is not the owner's personal money. The owner has to think carefully about what the business earns, what it spends, and what it can afford to pay out.

This helps show whether the business is viable, can afford to employ someone, and can cope with difficult months.

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… and disadvantages

The downside is more administration

A limited company does involve more paperwork. The company must keep records, file accounts, deal with Companies House, and the directors must understand their duties.

For someone who wants to build a serious business, that extra work is a fair price for the protection, credibility, and flexibility a company can provide.

Companies House charges have risen so that it now costs £100 to incorporate a company and the annual confirmation statement fee is £50. Also, directors need to verify their identity. This must be done before they become a director.

"A limited company does involve more paperwork."

Sole Traders face added compliance and cost burdens

Being a limited company has in the past cost more in accountancy and administration than being a sole trader, but that difference is becoming less clear.

For sole traders the main emerging compliance and cost change is *Making Tax Digital* (MTD). This means that sole traders need to keep up to date accounts and report quarterly to HMRC for Income Tax.

MTD is being introduced in stages. From 6 April 2026, sole traders and landlords with qualifying income over £50,000 are included. The threshold falls to £30,000 from April 2027 and £20,000 from April 2028.

This is a significant change to the simple annual personal tax return which was previously required. Sole traders will now need some form of accounting software to comply with this. It is likely that HMRC will put further compliance burdens on sole traders in future.

"Sole Traders face added compliance and cost burdens."

So, is a limited company the right choice?

The real question is not simply which option is easiest.

For a small amount of freelance work on the side, being a sole trader may be enough.

If the ambition is to build a business that can grow, have its own value, take on people, and bring in investment, a limited company is worth considering from the start.

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How to Set Up a Limited Company in the UK

Setting up a limited company in the UK is straightforward. We have laid out here the 14 steps you need to take.

Note that steps 10, 11, 12, and 13 are also required if a sole trader or partnership.

The process can be completed online through Companies House. An SJ Noble Trust trustee can help you with this process.

1 **Decide who will own the company.** Who is/are the shareholder(s)? You can have one shareholder or several.

You will also need at least one director. The director is responsible for running the company and making sure it complies with company law.

Directors need to verify their identity through GOV.UK One Login and receive a Companies House personal code. This is an 11-character code which belongs to the individual, rather than the company. It is not possible to register a company without at least one director having verified their identity.

2 **Choose a company name.** The name must be available and cannot be too similar to an existing company name. There are also restrictions on certain words and expressions. You can check whether the name is available through Companies House.

3 **Decide where the company will be registered.** The company needs a registered office address in the UK.

This is the official address where Companies House and other organisations can send formal correspondence. You can use your business premises or your home address. You could use a professional registered-office service, although there may be an annual charge.

4 **Decide what the company does**. You need to choose one or more SIC codes. These codes describe what type of business the company carries out.

5 **Decide how many shares the company will have.** For a simple company, 100 ordinary shares owned by the founder is a common arrangement. The value of the shares does not necessarily represent the value of the business.

"The process can be completed online through Companies House.
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How to Set Up a Limited Company in the UK

6 **Register the company with Companies House.** Go online to provide Companies House with the following:

- Company name
- Registered office;
- SIC code
- Directors
- Shareholders and share holdings
- People with significant control

The standard online incorporation fee is currently £100. Once Companies House accepts the application, the company legally exists.

7 **Set up a company bank account.** The company's money should be kept separate from the owners' personal money.

"The company's money should be kept separate from the owners' personal money."

8 **Register for Corporation Tax.** Once the company starts doing business, it needs to be registered with HMRC for Corporation Tax. There is no separate registration fee for Corporation Tax. The company will pay Corporation Tax on its taxable profits and needs to:

- Keep accounting records
- Calculate its taxable profit
- Submit a Corporation Tax return
- Pay the Corporation Tax due
- An accountant will normally include Corporation Tax work within the company's annual accountancy fee.

9 **Set up accounting and bookkeeping.** A limited company needs accounting records covering the following:

- Sales
- Purchases
- Expenses;
- Bank transactions
- Money paid to directors;
- Money invested by shareholders
- Dividends
- Assets and liabilities.
- You can do this yourself using accounting software or employ an accountant.

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How to Set Up a Limited Company in the UK

10 **Decide whether you need to register for VAT.** VAT registration is separate from forming the company. You must register if your taxable turnover exceeds the VAT registration threshold. You can also voluntarily register below the threshold if that would be beneficial. There is no charge for registering for VAT.

Once registered, you will need to:

- Charge VAT where appropriate
- Keep VAT records
- Submit VAT returns
- Pay VAT to HMRC or claim a repayment where appropriate
- The flat rate VAT scheme can simplify this.

11 **Set up PAYE if you are paying salaries.** If the company pays salaries to directors or employees, it will generally need to operate PAYE.

12 **Consider automatic enrolment.** If you employ people, you need to consider workplace pension automatic enrolment.

A company with only one director and no other staff will generally not have automatic-enrolment duties simply because the director is paid.

13 **Consider insurance.** The insurance you need depends on what the company does, but may include:

- Employers' Liability Insurance – generally required if you employ people
- Professional Indemnity Insurance – often appropriate for professional services
- Public Liability Insurance – often appropriate for businesses dealing with the public
- Motor insurance – if vehicles are used for business purposes

These are also required for Sole Tradership

14 **Keep the company compliant each year.** The main requirements are:

- File a confirmation statement with Companies House at least once every 12 months (£50).
- You also need to file the company's annual accounts but there is no separate Companies House filing fee for the accounts.
- For HMRC, the company must submit a Corporation Tax return and pay Corporation Tax. Note that the company is separate from you personally, and you may also have personal tax obligations. For example, depending on your circumstances, you may need to complete a personal Self Assessment tax return, including income received from the company.

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