



Small Businesses – Is it still attractive to be limited?

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There are three main forms of business – soletrader, partnership and company.

Where a business is in corporate form, the profits are subject to corporation tax, at a rate varying from 20% to 30%. Any income distributed as dividend is then taxed at 25% if the income falls into the individual's higher rate band, or is effectively tax-free otherwise. The key financial benefit compared to being self employed is the lack of National Insurance Contributions.

It is not perhaps surprising that given this strong fiscal incentive towards incorporation of a business there has been a significant change over the past ten years towards business owners choosing to be (or to become) incorporated.

However, some of the potential tax breaks are under challenge (see "Income Shifting after Arctic Systems").

We are often asked, 'Should I form a Limited Company?' The reality is that there is no easy answer. Each situation has to be judged individually. Although there is a clear incentive in the tax system towards incorporation, there are many other potentially relevant factors, such as:

- The business
- Its expected rate of growth
- The degree of commercial risk
- Administrative obligations
- Personal preferences
- Pensions and retirement

Any decision whether to incorporate should not depend solely on the potential tax breaks. There can be no substitute for a detailed analysis, and we are happy to help you in any way we can.

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