

Sole trader vs Limited company

Uses 2013/14 rates



	£	£
<u>SOLE TRADER</u>		
Profit	20,000	60,000
<u>Income Tax</u>		
Total taxable profits	20,000	60,000
Less personal allowance	-9,440	-9,440
Statutory taxable income	<u>10,560</u>	<u>50,560</u>
Income Tax at 20% (£0-32,010)	2,112	6,402
Income Tax at 40% (£32,011-£150,000)	0	7,420
Total income tax	<u>2,112</u>	<u>13,822</u>
<u>National insurance</u>		
NIC Class 2 contributions at £2.70 per week	140	140
<u>NIC Class 4:</u>		
Profits between lower and upper limits	12,245	41,450
Profits above upper limit of £41,451	0	10,795
Total profits above lower limit of £7,755	<u>12,245</u>	<u>52,245</u>
NIC Class 4 at 9% upto £41,450	1,102	3,731
NIC Class 4 at 2% above £41,450	0	216
Total Class 4 NIC	<u>1,102</u>	<u>3,946</u>
Total income tax & NIC	3,354	17,693
<u>LIMITED COMPANY</u>		
Profit before director's remuneration	20,000	60,000
Less director's remuneration	-7,696	-7,696
Profit before tax	<u>12,304</u>	<u>52,304</u>
Corporation tax @ 20%	-2,461	-10,461
Profit after tax	<u>9,843</u>	<u>41,843</u>
<u>Income Tax (assuming all dividends distributed)</u>		
Cash dividends	9,843	41,843
Deemed tax credit	1,094	4,649
Gross dividends	<u>10,937</u>	<u>46,492</u>
Less any remaining personal allowance	-1,744	-1,744
Taxable dividends	<u>9,193</u>	<u>44,748</u>
Taxed at 10% (upto £32,010)	1,094	3,201
taxed at 32.5% (£32,011-£150,000)	0	4,140
Less tax credit on dividends	-1,094	-4,475
Total tax on dividends	<u>0</u>	<u>2,866</u>
Total tax from using a company	2,461	13,327
Tax saving using a company	894	4,366