

Advantages and Disadvantages of a ltd company

Many people believe that when starting your own business, it is necessary to register with companies house as a Ltd company. Although running your business his way can have many great advantages, it may not be the right option for everyone.

Here we have listed the main pro's and con's for deciding to set up this way so you can make the right decision for you and our business.

Advantages of a ltd company

- Ltd company owners are limited in their liabilities if things go wrong. This will depend on the type of legal structure you have chosen and can mean that you are limited by shares or guarantee as well as some other options. As an owner you can only be held personally liable for the amount you have invested.
- The Company may be seen in a more professional light. This often means that potential customers may choose you over a sole trader business as it has been seen historically to be a more professional and established business.
- Ltd company provides more options when setting up your business with you and your families future in mind. There are many options available such as having your children as shareholders or your partner working along side you as a Director. Succession planning is wide and varied subject but is possible with owning a Ltd business.
- Some larger clients will only trade with Ltd companies. This could be for many reasons but some of your larger potential clients may have a policy in place which means they will only work with this type of legal structure.
- Depending on the individual financial circumstance it can be beneficial to set your business up as a Ltd company to make use of the tax and accounting allowances that are put in place by HMRC. This is by no way a means to avoid tax, however as a Ltd company there are slight benefits in utilising things such as dividend tax free allowances that are otherwise not available as a sole trader.

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Disadvantages of a Ltd company

- **Legal Obligations.** As a Ltd company business owner, your legal and financial obligations are much greater. If you are a Director also this will also attract specific rules and obligations to what you can and cannot do. Ltd companies are required to file annual financial accounts, corporation tax returns and annual confirmation statements. This is often achieved by having an accounting professional on side to handle these
- **Your Company Name** must follow strict guidelines. More details of this can be found on the Companies House & HMRC websites.
- **Accounting rules** are strict and specific. As a Ltd company you are bound by the rules and guidelines that govern your financial statements. This means that some ways of working that you may had adopted as a sole trader may not be allowed in a Ltd company.
- **Costs.** A Ltd Company will cost more to run than a single self employed individual. This is often seen in legal and professional fees as the professional services and advice is key in the running of a successful Ltd business.
- **Moving money in and out of your business** must follow strict rules. As a sole trader your profit belongs to you and you may use it as and when you need. In a Ltd company the profits belong to the Company and its shareholders and any deposits or withdrawals as a Ltd company owner must be inline with accounting rules and processes.