

New business options

The pandemic and intermittent lockdowns have been a very uncertain time, with many employees worried about job security. However, a recent study by GoDaddy UK revealed that there has been a 21% increase in new ventures over the last year. Micro-businesses make up 96% of the UK's registered companies, account for 33% of the workforce and 21% of overall turnover. Many who have been concerned about their future have taken the plunge and this has resulted in a boom growth of start-ups. It has been a unique time to break with routine - to slow down, take stock and explore business ideas.

So, if you are thinking about becoming your own boss and setting up your own business, you will need to consider your business structure. There are two basic choices: self-employed or incorporate your business into a limited company.

Self-Employed

Self-employed suggests that you work on your own, and this is certainly one self-employed option, but there are others.

You could have a business partner, or partners, and trade as self-employed but in a formal partnership arrangement. There are two basic types of partnership: a limited partnership (where the partners are not personally liable for any business risks) and a non-limited version (where the partners' personal assets are at risk if the business is unable to pay its debts). This personal liability aspect is one of the key reasons that needs to be considered when deciding on a structure for your

business. The other is the impact of NIC (National Insurance Contributions) and income tax.

If you are self-employed, the profits of the business are taxable based on the tax status of the business owner or owners. There is no flat rate applied to business profits. The more you earn, the more NIC and income tax you will pay.

Limited Company

Alternatively, you could set up a limited company which is treated as a separate legal entity. Companies pay corporation tax, not income tax, at a single rate, presently 19%.

At first sight it may seem like a no-brainer, why would you be self-employed and pay much higher rates of NIC and income tax? Combine this with the limited liability aspect and the argument for trading as limited seems compelling.



However, planning is key. Every potential new businessperson should consider both options. There are pluses and minuses to each, and both need to be considered. If you are thinking about a new business, perhaps your first venture into self-employment, we would suggest that you contact an accountant to help you with the process.

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