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Sole Trader – What being a Sole Trader means

Being a sole trader is generally regarded as being the simplest way to set up a business and has a number of advantages but also some disadvantages. A sole trader business is owned and run by one individual who is ultimately responsible for its success or failure, although a sole trader can employ others if they wish. As a sole trader you can keep all your business' profits after all tax has been paid on them.

Personal Legal Responsibilities

- any losses your business makes
- bills for things you buy for your business, like stock or equipment
- keeping records of your business' sales and spending

How to set up as sole trader

- you must register with HM Revenue & Customs (HMRC) as soon as you can after starting your business
- if you register later than 5 October in your business' second tax year, you could be charged a penalty

Sole traders' tax responsibilities

- send a Self Assessment tax return every year
- pay Income Tax on the profits your business makes
- pay National Insurance
- you must also register for VAT if you expect your business' takings to be more than the current yearly threshold

Advantages & Disadvantages of Being a Sole Trader

Advantages

- Easy to set-up and largely depend solely on a decision by individual to enter into business and to start trading.
- There are no start-up fees and a relatively small amount of administration involved in setting up as a sole trader. HM Revenue and Customs must be notified once the decision to start trading has been made but there are no registration fees which accompany it.
- No requirement to prepare statutory accounts or to make public disclosures about income, expenditure or assets held by the business. This could provide a potential cost saving to the new venture in terms of accountants fees.
- Sole trader businesses do not have and therefore are not required to maintain statutory books available for public inspection. As a result this can simplify and reduce the number of administrative duties placed on the new business.
- Subject to trademark, copyright and restrictions on passing off, sole traders are free to use any business name they choose even if that name is already employed by an unrelated business based elsewhere.

Disadvantages

- Sole traders are generally seen to lack the prestige normally associated with certain other business vehicles. This is largely due to the ease of which they can be set-up and the impression that they are not as stable as limited companies.
- This perception could have an adverse effect on the manner in which financiers and trade contacts choose to approach requests from the business for credit and funding.
- The liability of the owner of such a business is unrestricted, meaning that personal assets can used to satisfy the debts of the business in the event that the venture is unable to pay.
- As sole traders and their owner are regarded as one and the same for taxation purposes, a destination is not made between the actually amount drawn from the business and what is earned by it.
- This can become a significant factor particularly for new start-up ventures where stock is bought and retained and little is drawn from the business in the early years.
- The tax charge would ignore potentially significant profits which are retained and would tax the sole proprietor on the whole of the trading gains.
- Sole traders are typically smaller businesses and for many are the first steps towards self employment. Once the entity is established, it might transfer its trade to a limited company or become a partnership.
- This is by no means mandatory. Many choose to start a business inexpensively as a sole trader in order to test an idea before committing further resources.