



# Sole Trader vs Limited Company: Which is best for Amazon Sellers?



## Introduction

Deciding to start your own business can be daunting. You're motivated by the opportunity to manage your finances and the freedom of choosing your working hours – but there's a lot to learn along the way.

The first official decision is to determine the capacity in which you want to work for yourself. Do you want to be a sole trader, or do you want to register as a limited company? What are the differences between the two?

For an entrepreneur, it's important to understand the distinctions between company types and which could be the best fit for you.

This guide will discuss the key features of being a sole trader vs a limited company, including their advantages and disadvantages. By the end, you should have a clear idea of both options and should be able to decide which – if any – suits you best confidently.



## **Sole Trader vs Limited Company: Which is best for Amazon Sellers?**

In the UK you can register as a Sole Trader or as a Limited Company when starting a business.

As a sole trader, you run your own business as an individual and are self-employed.

HMRC request that you register as a sole trader once you have turned over £1000 in income. Once you register as self employed and you will get a UTR number.

It's best to do this as soon as you start trading as Amazon can ask for your UTR number at any stage and give you a deadline to supply the information. And the HMRC application process can take some time if there are issues with identity, addresses etc.

If setting up a limited company, the business is distinct from you and has its own legal entity. Each of these has its own advantages & disadvantages, which you should consider before setting up as an Amazon seller.

### **The Advantages of Being a Sole Trader on Amazon**

- It's very easy to set up as a sole trader, there's an easy step-by-step guide on the [Gov.UK website](https://www.gov.uk).
- It's also highly private. Unlike a limited company, your personal details aren't out in the public domain.
- Annuals accounts are submitted via self-assessment which is much more straightforward than company accounts, although it's still best to hire an accountant for this!





## The Disadvantages of Being a Sole Trader on Amazon

- The sole trader is personally responsible for any debt incurred, including if you are sued for any reason. This personal liability can be stressful if things go wrong and it affects your personal finances or credit rating.
- Whilst easy to set up, most sole traders aspire to grow their business into a limited company. Changing from a sole trader to a limited company can take a number of weeks and is sometimes a tedious process with Amazon.
- As of August 2021, the rate of tax you pay as a sole trader – also known as personal income tax – is slightly higher than corporation tax, although you only start paying tax on earnings over £12,570 – the current tax-free threshold.



## The Advantages of Setting up a Limited Company on Amazon

- A limited company has limited liability, which means your personal assets are not at risk should your business run into financial difficulties.
- You pay corporation tax – which is slightly lower than personal income tax – tax on your earnings, other than the salary that you take from the company. There are also more opportunities for tax-deductibles meaning you reduce the amount of corporation tax you pay.
- Unlike being a sole trader, your trading name cannot be duplicated once you've registered it at Companies House.



## The Disadvantages of Setting up a Limited Company on Amazon

- Running a limited company is a lot more bureaucratic than being a sole trader, with annual company accounts, confirmation statements and requirements for data protection.
- Whilst easy to set up, most sole traders aspire to grow their business into a limited company.
- Limited company accounts are much more complex and require specialist help – ideally from an accountant.



Tax is one of the biggest factors for Amazon sellers choosing whether to set up a sole trader or limited company. For this reason it is advised to get advice from a reputable accountant on which path to take.

However, in most cases, sellers start off as a sole trader then switch to a limited company once the business is established and just before it hits the VAT registration threshold.

Our biggest advice is to keep your paperwork in order, as the process of updating of entities with Amazon can be a tricky and time-consuming. Any inconsistencies can result in your Amazon seller account being suspended – potentially leading to weeks of lost revenue whilst your account is reviewed by Amazon.

So ensure that your identity, address, taxation, banking and trading details are consistent across all documentation. This will make the process run much smoother.

Finally, please seek expert advice from the HMRC or from an accountant for all matters related to taxation and company set-up.



## ABOUT US

Scaling your ecommerce business is about growing your revenues significantly while controlling the time spent in the business as well as the costs and expenses incurred.

We can help with that!

## OUR SERVICES

### SYSTEMISATION

We'll assess your current business and assist with the creation of standard operating procedures for your teams.



### TRAINING

Join our online courses, webinars for training on how to scale your business successfully.

### COACHING

We'll come alongside you and provide the training, support, and encouragement to grow your business.

