

What are the benefits of converting from a sole trader into a company

Firstly, if you are thinking of withdrawing large amounts of money by paying little or no tax, then this could be a good strategy for you.

When you convert your business into a limited company it is assumed that you will transfer your 'goodwill' to it. This could be any amount calculated professionally using accounting formulae. For example...

Peter started his IT consultancy business as a sole trader in April 2005. His yearly profits are £50,000.

In 2007, Peter decides to convert his sole trader status into a limited company. He transfers the 'goodwill' of £100,000 to the limited company, which so far is the assumed market value of his business.

Assuming Peter is a higher rate tax payer, the total tax which Peter would pay on the creation of 'goodwill' would be £6400. This turns out to be just 6.4%. The total 'goodwill' amount of £100,000 can be withdrawn from the company over a number of years

