



Business Structures - Which Should I Use?

So, you've decided to be your own boss, well done and welcome to the world of business. It is important to decide the best legal and taxation structure for your enterprise. The best format for you will depend on your personal situation, your future plans (both from a business and personal viewpoint) and can have repercussions on the way you're taxed and your exposure to creditors (lenders either financial or through supplies). There are a few possible options for you which are:-

Sole trader

This is the simplest and more common method of trading used. The formalities are few; you must inform HM Revenue and Customs immediately that you are trading and you are required to keep records of income and expenditure in order to calculate profits and what tax is due on them. Any profits from this trading are yours from the outset so all money withdrawn from the business is classed as taxable. A sole trader is also not distinguished from the owners' personal life so any business debts are the debts of the proprietor and as such, you are legally liable for those debts from your own cash or assets.

Partnership

A partnership is pretty much the same as being a sole trader with the added bonus that you are going into business with another person or group of people. The partners agree to share the profits based on a pre-determined percentage of ownership; usually amount of capital invested. It is always wise to draw up a partnership agreement which details all the rules that the partners agree to. Each partner is responsible for tax on their own percentage of the profits but each partner is "jointly and severally" liable for the partnership debts which means, should a partner not be able to pay their share of the debts, those debts can fall on the other partners. Remember, there are no friends in business!

Limited company

A limited company is a separate legal entity from its owners. Therefore, it can trade, own assets and incur liabilities in its own right and your ownership of the company is recognised by owning shares. If you also work for the company, you are both the owner (shareholder) and an employee of that company. When a company generates profits, they belong to the company and should you wish to withdraw money from the company, you must either take a dividend, a salary as an employee or withdraw from the capital you introduced. The advantage to you is that you can have a balance of these to minimise your tax and national insurance liability.

Companies pay corporation tax on their profits after paying your salary but before any dividends are taken so effective tax planning requires profits, salary and dividends to be considered together.

Limited companies are required to submit documentation and reports so this does increase the administrative burden and as soon as you incorporate, you should also register for the PAYE scheme with HMRC. It is best to talk this option through with your accountant who will be able to advise you.

The main reason why traders incorporate is the that there is no legal connection between the shareholder(s) and the company so therefore, any debts incurred in the business are liable to

the business only and the owners assets are protected – unless they sign any personal guarantees.

Limited liability partnership

A limited liability partnership is legally similar to a company. It is administered like a company in all aspects except its taxation. In this, it is treated like a partnership. Therefore you have the limited liability, administrative and statutory obligations of a company but not the taxation and national insurance flexibility. They are particularly suitable for medium and large-sized partnerships.

How we can help

We will be happy to discuss your plans with you and help you select the most appropriate structure for your business. Why not give us a call now on 02380 482 709?

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