Structure
What Is Most Suitable For Your Business

One of the most essential factors when setting up a business is to decide the best legal and taxation structure. The most suitable structure for you will depend on your future plans and your personal circumstances. There will be repercussions on how you are taxed, your exposure to creditors and other issues.

Detailed below are various options available:

Sole Trader

This is the easiest format for a new business to start trading. There are a few formalities to trading this way, the most important of which is informing HMRC. You are required to prepare accounts each year and they will form the basis of how you pay tax and national insurance. The business of a sole trader is not distinguished from the proprietors personal affairs so where there are any debts, you are legally liable to pay those debts from your personal assets.

Partnership

Where a group of two or more people come together and pool their talents, clients and business contacts so that, collectively, they can build a more successful business, this is known as a partnership. The partners will agree to share the profits in pre-determined ratio's. It is highly recommended to prepare a partnership agreement. This lays out the rules of how the partners will work together. Partners are taxed in the same way as a sole trader, but only on their share of the partnership profits. There is no restriction on your exposure to business creditors. As a partner you are 'jointly and severally' liable for partnership debts, so that if certain partners are unable to pay their share of the partnership debts then those debts can fall on the other partners.

Limited Company

A limited company is a separate legal entity from its owners. It can trade, own assets and incur liabilities in its own right. Your ownership of the company is recognised by owning shares in that company. If you also work for the company, you are both the owner and an employee of that company. When a company generates profits, they belong to the company. To extract money from the company, you must either pay yourself a dividend, as an owner, or a salary, as an employee. The advantage to you is that you can have a balance of these two to minimise your overall tax and national insurance liability. Companies pay corporation tax on their profits after paying your salary but before dividend distribution. Effective tax planning requires profits, salary and dividends to be considered together.

There are additional administrative factors in running a company, such as statutory accounts preparation, and secretarial obligations. The main advantage of owning a limited company is that your personal liability is limited to the share capital you have invested.

In order to run a company there are certain duties and guidelines that directors must comply with. It is important to remember that your statutory accounts and documents are on the public company register. This is often used by 3rd parties for checking purposes.

Limited Liability Partnership

A Limited liability partnership is legally similar to a company. It is administered like a company in all aspects other than its taxation. For this it is treated like a partnership. There are some subtle differences in terminology, such as the use of 'members' instead of 'partners'. You have limited liability, administrative and statutory obligations of a company but not the taxation and national insurance flexibility. They are particularly suitable for, and are now becoming more common than, medium and large partnerships.

What We Can Do To Help?

We will be happy to discuss your plans and the most appropriate business structure with you. The most appropriate structure will depend on a number of factors including consideration of taxation implications, the legal entity, ownership and liability.

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