Business Structures: Which Should I Use?

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Having made the decision to start your own business, it is important to decide the most appropriate structure for your business from both a legal and taxation point of view.

The most suitable structure will depend on your personal situation and your future personal and business plans. The decision you make will dictate the way you are taxed and your personal exposure to creditors and other debts.

The most common options available are as follows:

- ## Sole trader

  This is the simplest way of trading. There are only a few formalities to trading this way, the most important of which is informing HMRC on the commencement of your business. This is fairly straightforward and your local **abacus** accountant can help you with this.

  All businesses, no matter what form they take, are required to keep business records in order to calculate profits each year. The profit will form the basis for the calculation of your tax and national insurance liability. Profits left after accounting for tax and National Insurance are automatically yours.

  The business of a sole trader is not distinguished from the proprietor's personal affairs so that if there are any debts, you are legally liable to pay those debts using what ever assets you may have such as your home.

- ## Partnership

  A partnership is exactly the same as a sole trader except there are two or more individuals who have joined forces to run the business. Commonly the partners will have an equal stake in the business, however, this does not have to be the case. For example, a partnership could have two partners one with a 70% stake and the other 30%.

  It is advisable to draw up a Partnership Agreement which sets the rules of how the partners will work together.

  Partners are taxed in the same way as sole traders, but only on their own share of the partnership profits. As with sole traders, the partners are legally liable to pay the debts of the business.

  Each partner is 'jointly and severally' liable for the 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 in its own right and therefore completely separate 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 (shareholder) and an employee of that company. When a company generates profits, they are the company's property. Should you wish to extract money from the company, you must either pay a dividend to the shareholders, 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 themselves pay corporation tax on their profits after paying your salary but before your dividend distribution. Effective tax planning requires profits, salary and dividends to be considered together. Your local **abacus** accountant can advise you to ensure the most tax efficient position is reached.

  There are many advantages as well as disadvantages to operating through a limited company. **abacus** has a separate factsheet on 'Incorporation' which considers the relative merits as well as the disadvantages of operating through a company.

New companies can be purchased relatively cheaply in a ready-made form usually referred to as 'off the shelf' companies. **abacus** can incorporate a company for you within 24 hours.

There are additional administrative factors in running a company, such as statutory accounts preparation and company secretarial obligations.

A big advantage of owning a limited company is that your personal liability is limited to the nominal share capital you have invested.

- 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 such as law firms.

- Co-operative

  A co-operative is a mutual organisation owned by its employees. One example of such an organisation is the John Lewis Partnership. These structures need specialist advice.

How abacus can 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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