

Starting a Business

Choice of Business Structure

If you have decided that you want to start your own business, one of the decisions to be made is what type of business entity to trade through.

The main choices are sole trader, partnership, limited company or limited liability partnership and the structure that you choose will determine:

- the initial registration and ongoing filing requirements
- how you can extract any profits from the business
- how any tax must be paid
- your responsibilities if the business has debts or makes a loss

You may be involved in an area of trade where you are required to operate through a certain business structure, however the majority of business owners will be able to choose the option that is most suitable for them.

It is also worth remembering that a business structure can change at a later date, as the business grows – indeed this should be something kept under review to make sure that your business is operating in the most tax efficient way.

Sole Trader

Working as self-employed individual (known as a sole trader) is the most simple unincorporated business structure. One person is entitled to take any profits from the business and that same person is also liable for any debts of the business.

If you operate as a sole trader, you must register with HM Revenue & Customs (HMRC) to pay tax and National Insurance on your business profits. You will be required to file annual self assessment tax returns to determine your liabilities.

If you employ any staff, you will also need to register as an employer and you will be responsible for any tax and National Insurance due on employees' wages. Depending on the nature of your business and the total turnover, you may also need to register for VAT.

Partnership

This is the other main type of unincorporated business and in some ways is similar to the sole trader structure, but with more than one person being entitled to take profits from the business and with the partners being personally liable for business debts.

NB Although the tax treatment is the same, a partnership in Scotland is known as a 'firm' and is a separate legal entity to the partners.

If you are thinking about starting a business as a partnership, it is advisable to have a Partnership Agreement drawn up which will set out how the liabilities, profits and ownership will be split between each partner. It is up to the partners at this point to decide what percentage of profit each

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partner is entitled to, although this can be changed at a later date to reflect changes within the business.

The partnership business must be registered with HMRC and an annual self assessment return will need to be filed for the partnership. In addition, each partner must register for self assessment and file personal returns. It is the responsibility of each partner to pay the tax and National Insurance liabilities on their share of the profits.

As with sole traders, if the partnership employs any staff, it will need to register as an employer and must settle any tax and National Insurance due on employees' wages. Depending on the nature of the business and the total turnover, the partnership may of course also need to register for VAT.

Limited Company

A limited company is a separate legal entity in its own right, which means there is less exposure to financial risk for the owners.

A limited company is owned by one or more shareholders and the responsibility of running a company falls on one or more directors. Shareholders' liabilities are limited to the amount they have invested in the business and any personal guarantees they may have given when raising loans.

The company must pay corporation tax on any business profits arising. The directors and shareholders are responsible for settling any personal tax liabilities on money they extract from the company and will usually need to register for self assessment and file annual personal tax returns.

The limited company must first be set up and registered with Companies House, then with HMRC. The company will need to register as an employer as the directors are employees of the company and will be liable for any tax and National insurance due on employees' wages. As with all business structures, the company may also need to register for VAT.

The company must file accounts and returns to both Companies House and HMRC each year.

Limited Liability Partnership

A limited liability partnership, or LLP, is a hybrid between a limited company and a partnership. This type of business structure offers the limited liability available to shareholders of a limited company, but has the same tax treatment as a partnership.

As with an ordinary partnership, it is advisable to have a partnership agreement drawn up to set out how the profits and ownership will be split between each partner.

The business must be registered both with Companies House and with HMRC, as it will have annual filing obligations to both offices. Each partner must then register for self assessment and will be responsible for paying any tax and National Insurance due on their share of profits.

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In summary:

Business Structure	Positive Points	Points to Consider
Sole trader	East to set up Less red tape Full control of business retained	Full liability for debt Pay more in tax if profits exceed lower rate tax threshold
Partnership	As above Can be easier to secure finance	As above Can be difficult to wind up
Limited company	Less personal financial exposure Less tax for profits > £35k	More red tape More filing requirements Business profits are not your own
Limited liability partnership (LLP)	Flexibility of partnership Protection of limited liability	Profit taxed as income More red tape than normal partnership

Need help?

Waveney Tax Solutions can help you to determine the right business structure for you – and of course deal with all of the necessary registrations to get you up and running. To find out more, please call us on 01502 370620 or 07919 924273, or email us at nina@waveneytaxsolutions.co.uk.