

Understanding Business Structures



What options are there?

You must choose a business structure when you start a business. The structure you choose will define your legal responsibilities, like:

- The paperwork you must fill in to get started
- The taxes you'll have to manage and pay
- How you can personally take the profit your business makes
- Your personal responsibilities if your business makes a loss





Types of business

Most businesses in the UK are:

- Sole traders
- Limited companies
- Business Partnerships

If you're setting up a small organisation like a sports club or a voluntary group and don't plan to make a profit, you can form an 'unincorporated association'.





Sole Trader

You're a sole trader if you're running your own business as an individual. You can keep all your business' profits after you've paid tax on them. You can take on staff - 'sole trader' means you're responsible for the business, not that you have to work alone!





Legal responsibilities

You're personally responsible for:

- your business debts
- bills for anything you buy for your business, like stock or equipment
- keeping records of your business' sales and expenses
- sending a Self-Assessment tax return every year
- paying Income Tax on the profits your business makes and National Insurance



Sole traders' tax responsibilities

You must:

- send a Self-Assessment tax return every year
- pay Income Tax on the profits your business makes
- pay National Insurance

You must also register for VAT if you expect your business' takings to be more than £85,000 a year.



How to set up as a sole trader

You must register with HM Revenue and Customs (HMRC) as soon as you can after starting your business. If you register later than 5 October in your business' second tax year, you could be charged a penalty.



Limited Company

You can set up a private limited company to run your business. You must appoint people to run the company (called 'directors') and register (or 'incorporate') it with Companies House.

Once the company is registered you'll get a 'Certificate of Incorporation'. This confirms the company legally exists and shows the company number and date of formation.

Sole traders are personally responsible for their business debts, but the liability in a private company is usually limited to the shareholders. The liability depends on the type of company being created.





Legal responsibilities

There are many legal responsibilities involved with being a director and running a limited company.

Most limited companies are 'limited by shares'. This means that the shareholders' responsibilities for the company's financial liabilities are limited to the value of shares that they own but haven't paid for.



Company name

The names of all private limited companies in the UK must end in either 'Limited' or 'Ltd' and the name can't:

- be the same as any other name on the Companies House index of names
- contain a 'sensitive' word or expression unless you get permission
- suggest a connection with government or local authorities
- be offensive

Registering a company name doesn't mean your trademark is protected - you have to register trademarks separately.



How to set up as a Limited Company

You must set up the company with Companies House and let HM Revenue and Customs (HMRC) know when the company starts business activities. All limited companies must be registered (incorporated) with Companies House. You also have to let HM Revenue and Customs (HMRC) know when the company starts business activities. To set up a Limited company you need:

- the company's name and registered address
- at least one director
- at least one shareholder
- details of the company's shares - known as 'memorandum of association'
- rules about how the company is run - known as 'articles of association'

Every financial year, the company must:

- put together statutory accounts
- send Companies House an annual return
- send HMRC a Company Tax Return The company must register for VAT if you expect its takings to be more than £85,000 a year.

If you're a director of a limited company, you must:

- fill in a Self Assessment tax return every year
- pay tax and National Insurance through the PAYE system if the company pays you a salary



Ordinary Business Partnership

In a business partnership, you and your business partner (or partners) personally share responsibility for your business. You can share all your business' profits between the partners. Each partner pays tax on their share of the profits.

Partnerships in Scotland (known as 'firms') are different, and have a 'legal personality' separate from the individual partners.





Legal responsibilities

You're personally responsible for your share of:

- any losses your business makes
- bills for things you buy for your business, like stock or equipment

If you don't want to be personally responsible for a business' losses, you can set up a limited partnership or limited liability partnership. A partner doesn't have to be an actual person. For example, a limited company counts as a 'legal person', and can also be a partner in a partnership



Partnerships' tax responsibilities

The nominated partner must send a partnership Self-Assessment tax return every year. All the partners must:

- Send a personal Self Assessment tax return every year
- Pay Income Tax on their share of the partnership's profits
- Pay National Insurance



How to set up as a business partnership

You must choose a 'nominated partner'. This is the partner who will be responsible for keeping business records and managing tax returns. The nominated partner must register the partnership with HM Revenue and Customs. When they do this, they will automatically register personally for Self-Assessment.

Registration for other partners - You must register for Self-Assessment to pay your personal tax and National Insurance on your share of the partnership's profit as soon as possible after you start trading.

If you register the partnership or individual partners later than 5 October in your business' second tax year, you could be charged a penalty.



Registered address

The registered office address is where official communications are sent – for example, letters from Companies House and HM Revenue & Customs. The address doesn't have to be where you operate your business from but it must be:

- a physical address
- in the same country that your company is registered in – for example, a company registered in Wales must have a registered address in Wales



Articles of association

When you register your company you must have articles of association. These are the rules about running the company that shareholders and 'officers' (directors or company secretary) have to agree to. For example, rules about how decisions that affect the company must be made and the role of shareholders in those decisions. Most companies use standard ('model') articles - but you can change these or write your own as long as the company doesn't break the law.



Shareholders



When you register a company you'll need to make a 'statement of capital'. This is:

- the number of shares the company has and their total value - known as the company's 'share capital'
- the names and addresses of all shareholders - known as 'subscribers' or 'members'

Every limited company must have at least one shareholder. There's no maximum number. Directors can also be shareholders. Role of shareholders - Shareholders are owners of the company and they have certain rights for example, directors must get shareholders to vote and agree on changes to the company.



Other Partner responsibilities

All the partners must also share responsibility for:

- any losses the business makes
- bills for the business - eg when they buy stock or equipment

The partnership will also have to register for VAT if you expect its takings to be more than £85,000 a year



Limited liability Partnerships

The partners in a limited liability partnership aren't personally liable for debts the business can't pay. Their liability is limited to the amount of money they invest in the business.

Limited liability partnerships are most often set up by professional services firms, like solicitors or accountants.





Limited partnerships

The liability for debts that can't be paid in a limited partnership is unequally shared by its partners. This means:

- 'general' partners can be personally liable for all the partnerships' debts
- 'limited' partners are only liable up to the amount they initially invest in the business



Tax for Limited Liability and Limited Partnerships

Every year, the partnership must send a partnership Self-Assessment tax return to HM Revenue and Customs (HMRC), All the partners must:

- send a personal Self Assessment tax return every year
- pay Income Tax on their share of the partnership's profits
- pay National Insurance

You must also register the partnership for VAT if you expect your business' takings to be more than £85,000 a year.



Unincorporated Association

An 'unincorporated association' is an organisation set up through an agreement between a group of people who come together for a reason other than to make a profit, eg a voluntary group or a sports club.

You don't need to register an unincorporated association, and it doesn't cost anything to set one up.

This isn't a legal structure, so the association won't be recognised by the law. Individual members are personally responsible for any debts and contractual obligations.



Naming your partnership

You can use your own names or trade under a business name. There are rules on using a business name. You can't:

- use the terms 'Limited,' 'Ltd,' 'public limited company,' 'plc,' 'limited liability partnership,' 'LLP' or their Welsh equivalents
- use 'sensitive' words or expressions unless you get permission
- suggest a connection with government or local authorities
- use a name that is too similar to a registered trademark or an existing business in the same area or sector
- be offensive

You usually have to include all the partner's names as well as your business name (if you have one) on any official paperwork, like invoices and letters.

