a simple guide to... business structures.

question. which business structure is right for me?

We pride ourselves on being proactive, approachable accountants that care as much about your business as you do. If you are considering running your own business, it is vital that you understand each of the challenges you may face; here we will be discussing various **business structures**.

One of the first decisions you will need to make when starting a business is how you structure it. This will have a major impact on the way you will be protected by law and how are affected by HMRC rules and regulations.

There are 4 main types to cover:

- **Sole trader**
- **Partnership**
- **Limited Liability Partnership**
- **Limited company**

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business structure. sole traders (self employed)

A sole trader is typically a business owned and operated by a single person. It is not considered to be a separate legal entity under the law, but rather an extension of the individual who owns it.

The owner has possession of the business assets and is directly responsible for the debts and other liabilities incurred by the business. If your business ceases to trade or fails and owes money, creditors can sue you potentially putting your personal possessions at risk.

An individual is taxable on the profits the business makes, not the money withdrawn from the business. The profits of the business are combined with any other income the individual might have for income tax purposes.

Sole traders are not required by law to have annual accounts nor to file accounts for inspection however annual accounts are advised for H M Revenue and Customs tax returns. This means the business accounts are confidential and not available to the public.

Although a sole trader's business finances are not legally separate from personal affairs, it is advisable to keep a separate bank account solely for business transactions. You must keep accounting records that may be inspected by HMRC from time to time.
If you later decide you wish to be a Limited company, a sole-trader business can be incorporated into a limited company relatively easily at a later date.

Pros

- Easy to set-up with no formation costs
- The accounting requirements are less onerous
- Your accounts do not appear on public record
- Losses generated by a sole trader can be set against other income of the year or carried back to prior years, potentially resulting in a tax refund
- Easy to close

Cons

- The unincorporated business does not carry the same prestige.
- Business debts become personal debts – there is no difference
- Your personal assets are at risk if your business fails
- Personal income is not easy to control.

If you have any questions or concerns, please contact Vicky by calling 07745 703 730 or emailing vicky@vspaccountancyservices.com

business structure. partnership

A partnership is when two or more individuals join together to run a business and share profits. Each of the individual partners has ownership of the partnership assets and responsibilities for all business liabilities and each may be responsible for the whole, not just their share if the other defaults (with the exception of income tax liabilities). How the profits are shared and the authority of the partners can be modified via the partnership agreement.

Partners are taxed in a similar manner to sole traders. Partnership accounts are confidential and will not appear on the public record.

The partnership itself is also required to file an income tax return.

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Pros

- Easy to set-up with no formation costs

- The accounting requirements are less onerous

- Your accounts do not appear on public record

- Losses generated by a partnership can be set against other income of the year or carried back to prior years, =potentially resulting in a tax refund.

- Easy to close

Cons

- A partnership agreement is always advisable which can incur significant legal costs.

- The commitment of each partner can change over time and unless this is reflected in the partnership profit-sharing agreement this can cause problems.

- Business debts become personal debts – there is no difference.

- Your personal assets are at risk if your business fails.

- Personal income is not easy to control.

- Tax affairs can become difficult especially where there are changes in the partnership.

At VSP Accountancy Services, we pride ourselves on being proactive, approachable accountants that care as much about your business as you do.

As a member of the Institute of Chartered Accountants in England and Wales' (ICAEW) we have the experience and knowledge to help you make the right decisions from both a tax and guidance perspective, while at the same time ensuring we take as much pressure off you as possible.

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business structure. limited liability partnership (LLP)

A LLP is similar to a traditional partnership except that an LLP is a legal entity in itself. LLP status allows for the liability of partners to be limited in most cases, similar to that of a limited company. Like a limited company the LLP's accounts need to be filed at Companies House and its financial statements are available to the public. However, the tax treatment follows that of a traditional partnership.

Pros

- Your liability is restricted to the amount of money in the partnership, plus whatever guarantees have been given.

- Losses generated by a partnership can be set against other income of the year or carried back to prior years, potentially resulting in a tax refund.

Cons

- A partnership agreement is always advisable which can incur significant legal costs.

- The commitment of each partner can change over time and unless this is reflected in the partnership profit-sharing agreement this can cause problems.

- Personal income is not easy to control.

- Tax affairs can become difficult especially where there are changes in the partnership.

- Accounts are made available to the general public, although only certain information needs to be disclosed.

- There are greater reporting requirements meaning accountancy costs are likely to be higher.

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business structure. limited company

A limited company is a separate legal entity. It has responsible for its own debts and has substantially all of the legal rights of an individual.

The company must file tax returns with H M Revenue and Customs and pay Corporation tax on profits derived from its operations.

Typically, the owners or shareholders of a limited company are protected from the liabilities of the business.

Account must be filed with the Registrar of Companies and these are available for inspection. However, for most small companies, it is possible to disclose a lesser amount of information.

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The accounting requirements for limited companies are set out by the Companies Acts and are more onerous than those of sole traders and partnerships and much more complicated. As such, in practice, they are normally prepared by a qualified accountant.

Pros

• Your liability is restricted to the amount of money in the company, plus whatever guarantees have been given.

• Limited companies are sometimes considered more prestigious

• A lower overall tax bill can be achieved by setting up a company.

• Personal income can be decided in advance, all of the profits do not need to be taken out of the company.

• Tax planning opportunities are available in certain circumstances, such as the use of dividend payments.

• Changes in ownership are simpler than other structures.

Cons

• There are initial set-up costs involved in incorporating a company, although this can be as little as £12.

• Accounts are made available to the general public, although only certain information needs to be disclosed.

• There are greater reporting requirements meaning accountancy costs are likely to be higher.

• More difficult to end.