



what you need to know to start and grow your business

trading structure

What are my options?

There are different ways your business can start trading, with differing complexity, costs and exposure to legal and tax risks. The best option for you will depend on the scale of your expected activities and sales, what you will be selling, and whether you will be setting up with one or more partners. The options are:

SOLE TRADER

- No set-up formalities: you are good to go
- No reporting obligations except tax
- Full control over the business
- Your business income is your personal income
- Trade under your own name or a chosen trading name
- Consider registering trading name at Companies House

PARTNERSHIP

- Simple form: no registration formalities, just need partnership agreement stating which partners decide which issues, who is liable for what, and what % of partnership income each gets
- Limited liability partnership (LLP): register incorporation document at Companies House. Generally used for professional services e.g. law, accountancy.

LIMITED LIABILITY COMPANY

- Choose name not same as/similar to company name already taken (or to any existing trade mark or domain name).
- Register at Companies House
- Appoint at least one director and create one or more shares to be held by one or more shareholders
- Create and file your 'Mem & Arts':
 - Memorandum of Association: signed by all shareholders on incorporation, agreeing to form company and take share(s)
 - Articles of Association: rules for running company, % votes needed for decision on different actions, signed by shareholders, directors and (if appointed) Company Secretary
- Annual reporting to Companies House
- Private unless/until publicly listed on stock exchange.

CHARITY

- Not for profit organisation

Try to buy domain name incorporation before registered trading name/company/LLP at Companies House: once your name is on a public register, others may buy domain name to sell back to you at elevated prices.

What are the legal implications for each option?

SOLE TRADER

Your business finances are your finances. If your business owes a debt to someone or causes someone physical or financial harm, then it is your personal debt or liability. Your liability is not limited. This could include liability to your employees or if your product/service caused damage to customers. Your home and other personal assets are at risk and worst case could lead to personal bankruptcy.

LIMITED LIABILITY COMPANY

The company's liability is limited to the value of its shares and any assets it owns. You are not personally liable (either as director or shareholder) for debts or liabilities the company incurs if things go wrong. However, directors must act in the best interests of the company, not themselves. If you act wrongly or fraudulently as director, a court may find you personally liable for the company's acts/omissions.

PARTNERSHIP

Simple partnership: every partner is collectively and individually liable for acts all debts or liabilities incurred by the whole partnership unless agreed otherwise in the partnership agreement. Limited Liability partnership: more like limited liability company, with the partnership liability limited to all assets owned by the LLP and each partner's exposure limited to the amount he or she invested in the LLP.

What are the tax implications for each option?

- VAT: whichever option you choose, the entity selling the goods or services needs to register at HMRC for (and pay) VAT if its annual income is ~£85,000 or more (You can still register for and pay VAT if your income is below the threshold: this can help show professionalism and strong business aspirations).
- Income Tax: this varies for each option as follows:

SOLE TRADER

You simply pay personal income tax on your business income as part/all of your personal income. The more you make, the higher the chance you hit a higher tax rate.

LIMITED LIABILITY COMPANY

You pay tax twice: company pays corporation tax on its profit and then you pay personal income tax on the income you receive from the company (and anywhere else). Could be expensive but you may be able to take dividends rather than a salary and hence pay personal tax at a lower rate.

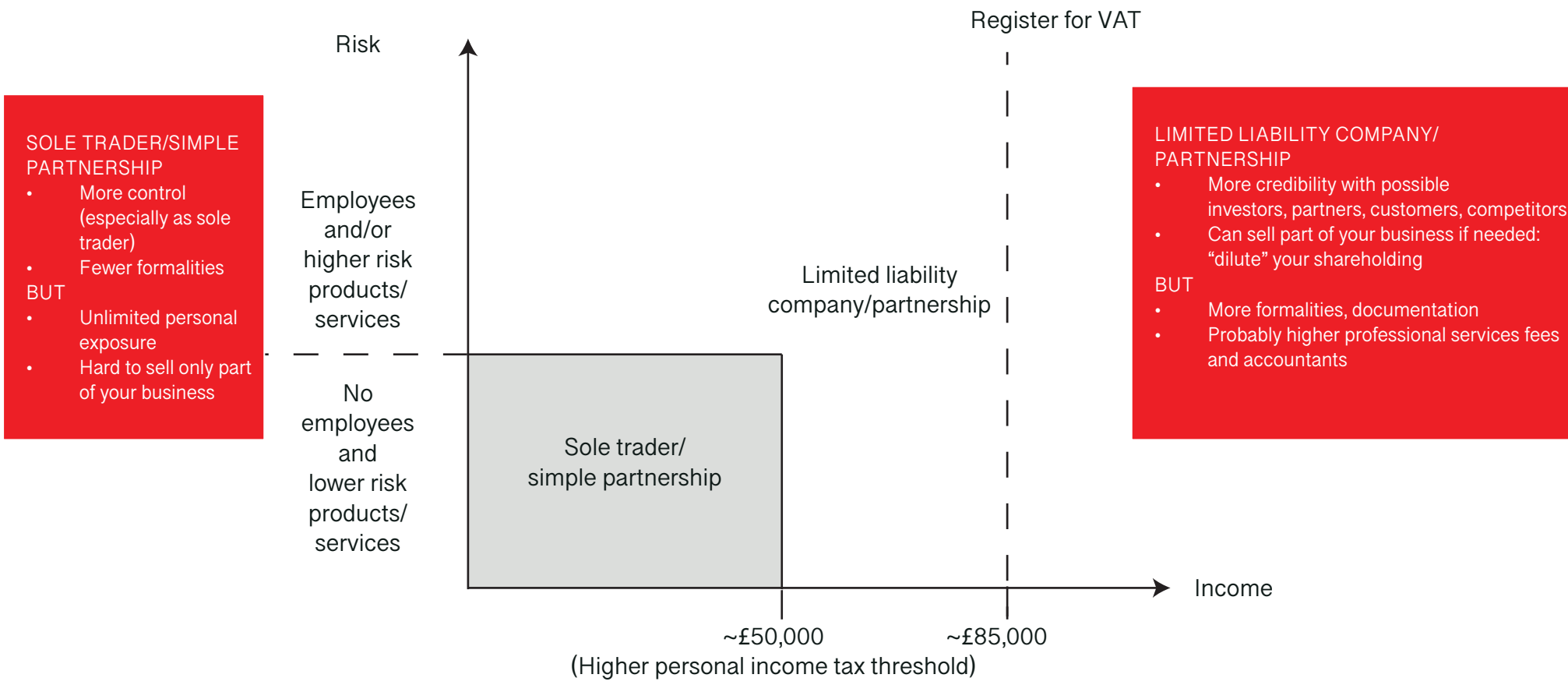
PARTNERSHIP

Simple partnership: each partner pays personal income tax on his/her agreed share of the partnership profits in the same way as a sole trader.

LLP: LLP entity pays corporation tax on its profits and then each partner pays personal income tax on the share of profits they draw down

How do I choose the right structure for my business?

You should seek legal and tax advice if not sure. Bear in mind that you can switch to a different structure later if needed, for example if you grow, take on employees, switch product lines, etc. The chart below is a general indication only.



Also think about

- Records, Tax & Reporting • Risks & Insurance • Domain names • Trade marks (name selection) • Contracts

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To address any specific concern, you should not rely on this content and should seek appropriate advice for the relevant jurisdiction.

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