Information Sheet

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We hope you enjoy reading this information sheet and find it useful. Please contact us if you would like to discuss any matters further.

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Business Structure

Let's start

Your business structure can affect how much tax you pay and how the law treats you. It's worth considering all options before deciding.
The main type of structures are

- Sole Trader
- Partnership
- Company

Your choice will affect your admin burden, tax, legal status.
If you decide not to choose a structure, you will be classed as a Sole Trader, which is how many people start.
You're not locked into one structure forever.
A lot of businesses start as sole traders or partnerships and grow into companies.
You might change your business structure if you start getting bigger and doing more complex projects which carry a greater financial or legal risk for you.
However, it's worth weighing up all your options.

Sole Trader

A Sole trader is a single-owner business, but it doesn't mean a single-worker business, so you can hire staff.
A sole trader is considered to be 'self-employed'. This means you must register with HM Revenue & Customs (HMRC) for self-assessment as soon as you start trading.
A sole trader is one person who is responsible for all a company's profits and debts.
In the eyes of the law, the business and the owner are the same. This is called unlimited liability. The owner is personally liable for the firm's debts and may have to pay for losses made by the business out of their own pocket.

Let's check out the main advantages and disadvantages of a Sole Trader:

Advantages

- Easy to set up.
- Freedom and full control over business decisions.
- Tax is super simple - You just declared income on your personal tax return You don't have to file anything publicly (Companies have to file accounts and shareholder information with Companies House)

Disadvantages

- Unlimited liability. You are personally liable for all business debts.
- There is less opportunity to tax plan and reduce your tax bill. You will pay tax on all of your profits.
- Raising money and finance is not as straight forward as other business types
- Potentially not having someone to bounce ideas off or talk through project

Partnership

A Partnership is owned by two or more people. There are no rules about how it's divided. In fact one Partner can own 99% of the business. The same rules apply as above for a sole trader but to be able to split the profits on a trade you will have to register a formal partnership with HMRC, again you can do this easily online and every partner will also have to register for self-assessment along with partnership tax return.
The 'nominated partner' is responsible for managing the partnership's tax returns and record keeping. There are deadlines for filling accounts and your accountant will be able to help you with
these.

Advantages

- It's easy to set up as a partnership, although we recommend you have an official letter that sets out the agreement.

- As with Sole Trader, tax is simple again, all you need to do it declare your share of the business income on your personal tax return
- You're more likely to obtain a business loan when there's more than one owner. Which allows for growth potential.
- Spread the risk with more members, financially and operational, for example, if someone gets ill.
- Mutual support over business decisions.

Disadvantages

- Unlimited liability. You are personally liable for all business debts therefore, if the business gets into financial or legal trouble the partners do too!
- Each partner is responsible or liable for the other partner's negligence or misconduct.
- Because of the shared responsibility, this can lead to disagreements and conflict over decisions.
- A partnership may also miss out on some tax advantages that come with being a company.

Limited Company

A company is legally separate from its owner (or owners), which you're less exposed to legal or financial issues. A company can be owned by one person or many.
A limited company is incorporated, which means they have their own legal identity and can sue or own assets in their own right. Therefore have limited liability.

The ownership of a limited company is divided up into equal parts called shares. Whoever owns one or more of these is called a shareholder.
· a private limited company (ltd)
· a public limited company (plc)

Advantages

- You get some legal and financial protection if things go wrong - we can help you out with these.
- Potential for tax planning and reducing your tax bill
- More options to raise capital for growth and expansion
- You can sell shares in your company to raise money
- You're an employee of the company

Disadvantages

- Risk of disagreement between directors if going into business with someone else
- Complex to set up which will result in higher start-up costs
- There's a lot more admin involved and you'll have to regularly submit paperwork to Companies House

Planning ahead for the corporation tax increase in 2023

For UK companies, one of the biggest taxes to be planning ahead for is the increase to corporation tax. The new rate will be effective from 1 April 2023.
We will be releasing an article in the next week examining the impact of this change on companies.