



Which Business Structure Is Right for Me?

## Section 1 | Introduction

Knowing that you want to start up your own company is the first step. But identifying exactly what kind of incorporation is best suited to you, can be a challenge.

There are several different types of companies that come with differing structures, taxation processes and guidelines to follow.

On the following page is a flowchart designed to assist you in the identification of the most appropriate business structure to meet your needs.

If following this, you still are not sure, you can find the main advantages and disadvantages of each structure, to consider in your decision

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## Section 2 | Sole Trader

### What is a sole trader?

A sole trader is a business owned and run by a singular self-employed individual.

### Advantages

- There are fewer documents, filings, or fees involved in starting business as a sole trader.
- Sole traders are in control of all key decisions and distributing profits.
- Unlike limited companies, there is no requirement to disclose personal information to the public.
- There are several incorporated company filings that do not apply to sole traders.

### Disadvantages

- Sole traders are personally responsible for all business debts.
- As sole traders are not required to file accounts, banks can avoid investments due to lack of financial transparency. Other investments can also be difficult to obtain, as shares of the business cannot be offered in exchange.
- As a sole trader, you are solely responsible for the running of the business. The burden of large workloads and lack of cover can be a deterrent.
- Sole traders must pay income tax on the entirety of their annual profits, unlike limited companies, that can pay lower rates of corporation tax.

## Section 3 | Limited by Shares

### What is a company limited by shares?

A limited by shares company is a type of private limited company, in which the value of the company is divided into shares and distributed between shareholders. The shareholders are liable for the company to the value of their shares in the company.

### Advantages

- Company officers are liable for the company's debts, only up to the value of their shares.
- Limited companies must pay corporation tax (19% - 25%) on profits, which is considerably less than the average income tax rates (20% - 45%).
- The distribution of shares can be attractive to investors, providing funds in return for a share in the company. This gives the company wider access to funds.
- The company is a separate legal entity and can continue in the event that the directors pass away, resign or retire.

### Disadvantages

- There are very specific restrictions as to the naming of a limited by shares company.
- Limited by shares companies must provide personal details such as registered office address and director names and financial statements to be published on the Companies House website.
- It can be costly to set up and maintain a limited by shares company with Companies House due to the annual filing obligations.
- Despite the limited liability, directors can be personally liable if they have not fulfilled their duties.

## Section 4 | Limited Liability Partnership

### What is an LLP?

A limited liability partnership is a legal partnership of two or more people who have limited liability for company debts.

### Advantages

- LLPs have limited liability, meaning that the personal assets of officers are protected in the event of company debts in most cases.
- Each member of the LLP is taxed on their individual share of company profits. The partnership therefore is not required to pay corporation tax.
- The management of an LLP is regulated via a written agreement between members allowing for more flexibility within the partnership.
- An LLP is incorporated as a separate legal entity and is therefore able to do anything that an individual could do, such as own property.

### Disadvantages

- LLPs must file several forms and financial statements to abide by Companies House obligations.
- A limited liability partnership must have at least two designated members. This can be difficult given specific circumstances and poses the risk of conflict in operations.
- LLPs must provide personal details such as a registered office address and member names to be public on the Companies House website.
- Requiring a partnership agreement could require the services of a solicitor, adding to the cost and administrative burden.

## Section 5 | Limited by Guarantee

### What is a Limited by Guarantee company?

A limited by guarantee company is a non-profit limited company. All profits are reinvested into the company to meet their objectives. The members of the company are liable to a small pre-agreed fee in the event of company debts.

### Advantages

- Members of the company are only liable to the amount agreed.
- Widely understood by the wider community leading to greater support.
- Limited by guarantee companies have an equal structure, by which members all have equal voting rights, control and distribution of profits.
- Can be very quick and easy to set up.

### Disadvantages

- Limited by guarantee companies must provide personal details such as director and guarantor names and a registered office address to be public on the Companies House website.
- Must file several forms in accordance with Companies House obligations.
- Limited by guarantee companies can have limited funds as ownership of the business cannot be offered in exchange to potential investors.
- Financial statements need to be submitted to Companies House and will be publicly visible, potentially leading to scrutiny.

## Section 6 | Community Interest Company

### What is a CIC?

A community interest company is a type of limited company that aims to benefit the community with its profits and operations.

### Advantages

- Community interest companies have limited liability meaning that the personal assets of officers are protected in the event of company debts.
- A CIC can be converted to a CIO, and limited companies can be converted to CICs in some cases.
- The asset lock provides security knowing that the company's assets will be distributed only to other community focused companies - this can reassure potential investors.
- With fewer requirements, a CIC can be significantly faster to set up than a charity.

### Disadvantages

- CICs do not qualify for tax reliefs in the same way that registered charities do.
- Asset locks require all assets to be transferred to another CIC or a charity upon closure rather than to members.
- Community interest companies must provide personal details such as directors and guarantors/shareholders and a registered office address to be public on the Companies House website.
- Although increasing in popularity, CICs are not as widely recognised as structures by the wider public, so charities are more likely to be the recipient of donations.

## Section 7 | Charity

### What is a Charity?

A charity is a non-profit organisation, governed by the Charity Commission. Its purpose is to operate for the benefit of the public. All profits contribute to meeting the aims.

### Advantages

- Charities are not generally required to pay income/corporation tax.
- Charities are required to pay no more than 20% of ordinary tax rates on areas used for charitable purposes.
- As monitored by the Charity Commission, the public are more trusting and willing to support registered charities.
- Charities can reclaim gift aid on donations

### Disadvantages

- Very specific criteria must be met to register as a charity making it very difficult to successfully apply. Some activities may be considered charitable where others are not, limiting operation.
- Charity Commission guidelines and rules are very strict.
- Charities cannot participate in political campaigning.
- The trustees of a registered charity do not often receive financial benefits. This is only possible when authorised by both the charity and the Charity Commission.

Now you are equipped with all of the information you need to choose the best structure for you and start your business journey. Have more questions? Please feel free to contact our friendly team today.



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