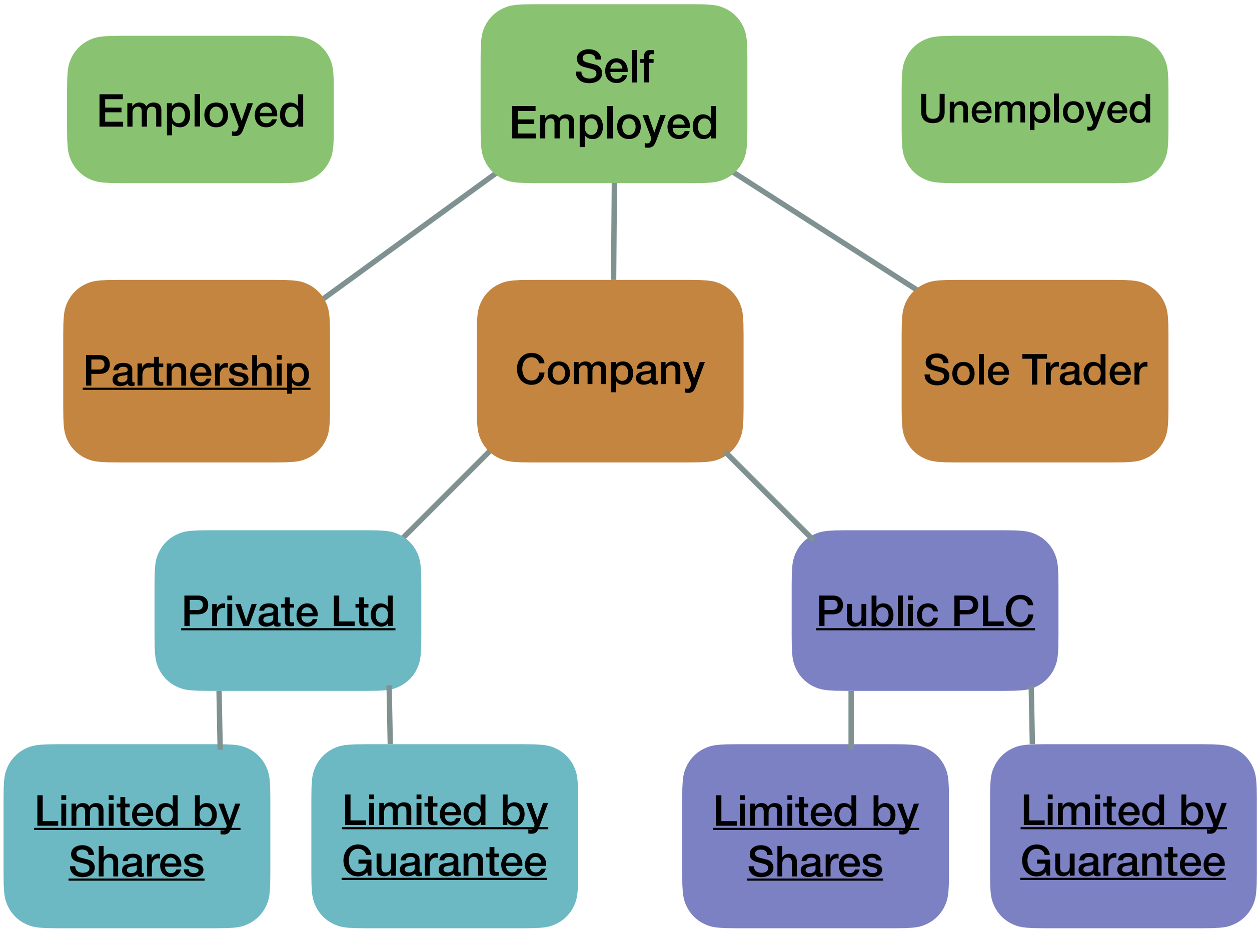
Choosing the right Company:

In the world of employment you are either self employed or you work for someone else. The third option is to be unemployed.



The easiest, cheapest and fastest way to set yourself up and start working for yourself is to register as a **Sole Trader**. [see separate article]. The main disadvantage is that you will be responsible for any loss or financial debt you may incur, but you can keep all the profit you make after paying taxes. You can hire the services of someone else if you need extra help.

A more complicated, expensive but financially safer option is to start your own company. But what options are there? This is a simple guide to give you an idea of the options and provide ideas for further reading.

So basically there are;

Partnerships
Private and Public Limited Companies
Companies limited by shares
Companies limited by guarantee

Partnerships:

From an article written by Johnathan Korchak

There are three relatively common **partnership types**: general **partnership** (GP), limited **partnership** (LP) and limited liability **partnership** (LLP).

Advantages of a business partnership

The business partnership offers a lot of advantages to those who choose to use it.

Less formal with fewer legal obligations

One of the main advantages of a partnership business is the lack of formality compared with managing a limited company.

Easy to get started

The partners can agree to create the partnership verbally or in writing [Much the better option]. There's no need to register with Companies House and registering the business partnership for taxation with HMRC is quite simple. The partners will also individually need to register for self assessment, which they can do online.

Sharing the burden

Compared with operating on your own as a sole trader, by working in a business partnership you can benefit from companionship and mutual support.

Access to knowledge, skills, experience and contacts

Each partner will bring their own knowledge, skills, experience and contacts to the business, potentially giving it a better chance of success than any of the partners trading individually.

Better decision-making

Compared with operating on your own, very often two heads really are better than one.

Privacy

Compared to a limited company, the affairs of a partnership business can be kept confidential by the partners.

Ownership and control are combined

In a business partnership, the partners both own and control the business. As long as the partners can agree.

More partners, more capital

The more partners there are, the more money there may be available from their combined resources to invest into the business.

Easy access to profits

In a business partnership, the profits of the business are shared between the partners.

Disadvantages of a business partnership

While there are lots of benefits of a partnership business, this model also carries a number of important disadvantages.

The business has no independent legal status

A business partnership has no independent legal existence distinct from the partners. By default, unless a partnership agreement with alternative provisions is put in place, it will be dissolved upon the resignation or death of one of the partners.

Unlimited liability

Again because the business does not have a separate legal personality, the partners are personally liable for debts and losses incurred.

Perceived lack of prestige

Like a sole trader, the partnership business model often appears to lack the sense of prestige more associated with a limited company.

Limited access to capital

While a combination of partners is likely to be able to contribute more capital than a sole trader, a partnership will often still find it more difficult to raise money than a limited company.

Potential for differences and conflict

By going into business as a general partnership rather than a sole trader, you lose your autonomy. You probably won't always get your own way, and each partner will need to demonstrate flexibility and the ability to compromise.

Slower, more difficult decision making

Compared to running a business as a sole trader, decision-making can be slower as you'll need to consult and discuss matters with your partners.

Profits must be shared

At a basic level, while a sole trader retains all the profits of their business, those of a partnership are shared amongst the partners.

Taxation

With the profits earned by the partnership translated to income on the individual partners, they're subject to income tax in the financial year in which they are made. Profits can't be retained in the partnership to be drawn as income in a later year, when a partner's income (and potentially their marginal tax rate) may be lower.

Limits on business development

Any business looking to achieve massive growth, a combination of unlimited liability, lack of funding opportunities and a lack of commercial status in the eyes of the world is hardly the perfect recipe for success.

What is a limited company?

A limited company is a type of company which allows the business owner[s] to keep their own assets and finances separate from the business itself. This means that the business is an entity in its own right and any business losses can be kept at arms length from your personal wealth.

There are two types of limited company, ‘limited by shares’ or ‘limited by guarantee’.

Limited by shares

Limited by shares companies are businesses that can make a profit.
This means the company:

- is legally separate from the people who run it
- has separate finances from your personal ones
- has shares and shareholders
- can keep any profits it makes after paying tax

Limited by guarantee

Limited by guarantee companies are usually ‘not for profit’.
This means the company:

- is legally separate from the people who run it
- has separate finances from your personal ones
- has guarantors and a ‘guaranteed amount’
- invests profits it makes back into the company

Some of the advantages of a limited company

There are many advantages that come with being a limited company, these include:

- **Limited liability** - The business owners won’t face any personal liability as all their acts are undertaken as agents for the company.
- **Tax benefits** - Limited companies are only taxed on their benefits, which is usually at a rate of 19%. They’re also not subject to the higher tax rate of 40% - 50% (unlike sole traders and individuals in partnerships).
- **Company car** - As the owner of a limited company, you’ll benefit from using your own personal car rather than a company car for business. This way, you can charge the mileage made on business travel to the company.
- **Your home is your office** - Run your business from your house or flat and you can claim back for the cost of doing so.
- **Protection for your business** - As a limited company your company name is protected by law. Companies House has strict rules for the naming of companies - so no one else can copy your name.
- **Professional** - For some businesses, trading as a ‘limited company’ can provide a more professional image. Particularly in the case of doing business with larger companies, you may find that they prefer to deal only with limited companies rather than sole traders or partnerships.

Some of the disadvantages of a limited company?
These include:

- **Paying corporation tax** - Your business will be liable for corporation taxes, which is a tax on the profits of the business. If the business is profitable enough, what you save in personal taxes could go to HMRC in the form of high corporation taxes.
- **Administration responsibilities** - As a limited company you'll have a lot of administration things you need to stay on top of. This includes tax returns, expense details and your business accounts. These usually need to be completed every month.
- **Public accounts** - The business must publish its accounts to Companies House, including the details of Corporation Tax and also give a business address. This means that all annual accounts and financial reports will be placed in the public domain.
- **More costs** - If you've just started your business the costs of setting up a business name can be pricey. Although, the initial costs may prove to be worthwhile when you are eventually an established and successful limited company.

Public Limited Company [PLC] or Private Company [LTD]:

A private limited company, or **LTD**, is a type of privately held small business entity, in which owner liability is limited to their shares. Unlike a publicly limited company, where shares are traded on the stock exchange, a private limited company does not publicly trade shares and is limited to a maximum of 50 shareholders.

With a **PLC** you need a minimum of two shareholders, but a private limited company will only need one. There needs to be a minimum of two Directors registered within a **PLC**. Only one is needed for a private company. Company accounts are required to be submitted to HMRC within 6 months of the end of the financial year.

How to set-up a public limited company
PLCs must:

- have at least two shareholders
- have issued shares to the public to a value of at least £50,000 before it can trade
- be registered with Companies House
- have at least two directors who must be at least 16 years of age
- have a qualified company secretary

Management and raising finance
Businesses that are PLCs are the only type of business that can raise money by selling shares to the general public:

- shareholders can be individuals or other companies
- the shares may or may not be traded on the stock exchange
- finance can also be raised through loans and retained profits
- directors may be asked to give personal guarantees of loans to the company
- a board of directors usually makes the management decisions

Records and accounts
PLCs must:

- send an annual return to Companies House
- file accounts with Companies House once a year - the accounts must be audited unless the company is exempt

Profits
Profits are usually distributed to shareholders in the form of dividends, apart from profits retained in the business as working capital.

Tax and National Insurance
If a PLC has any taxable income or profits, it must tell HM Revenue & Customs (HMRC) that it exists and is liable to **Corporation Tax**. It must then pay any Corporation Tax that's due and submit a Company Tax Return to HMRC. A PLC must also comply with HMRC's requirements for PAYE for employers and VAT

Starting a company:

Setup a Limited Liability Partnership LLP:

Becoming an Employer:

If you decide to employ somebody as opposed to contracting the services of other people, there is a big commitment to consider.

Seven things to consider before you start

1. Decide how much to pay someone - you must pay your employee at least the National Minimum Wage.
2. Check if someone has the legal right to work in the UK. You may have to do other employment checks as well.
3. Check if you need to apply for a DBS check (formerly known as a CRB check) if you work in a field that requires one, eg with vulnerable people or security.
4. Get employment insurance - you need employers' liability insurance as soon as you become an employer.
5. Send details of the job (including terms and conditions) in writing to your employee. You need to give your employee a written statement of employment if you're employing someone for more than 1 month.
6. Tell HM Revenue and Customs (HMRC) by registering as an employer - you can do this up to 4 weeks before you pay your new staff.
7. Check if you need to automatically enrol your staff into a workplace pension scheme.