Business Structure

To put your business on a proper footing with HM Revenue & Customs (HMRC) and other authorities, you need to make sure that it has the right legal structure. It's worth thinking carefully about which structure best suits the way that you do business, as this will affect:

- The tax and National Insurance that you pay
- The records and accounts that you have to keep
- Your financial liability if the business runs into trouble
- The ways your business can raise money
- The way management decisions are made about the business

There are several structures to choose from, depending on your situation. This guide will help you understand the differences between them.

If you are not sure which legal structure would best suit your business, it's a good idea to get advice from an accountant or solicitor.

Self-Employment

To be a sole trader, a partner, or a member of a limited liability partnership as an individual rather than a company, you must be self-employed and registered as such with HMRC. This does not mean that you cannot also do other work as an employee, but the work you do for your business must be done on a self-employed basis.

If you are not sure whether this work counts as self-employment, ask yourself the following questions:

- Do you present your clients with invoices for the work that you do for them?
- Do you work for more than one client?
- Are you responsible for the losses of your business as well as taking the profits?
- Can you hire other people on your own terms to do the work that you have taken on?
- Do you have a lot of control over your hours and place of work?
- Have you invested your own money in your business or partnership?
- Do you use your own tools or equipment for your work?
- Do you have to correct unsatisfactory work in your own time and at your own expense?

If you can answer "yes" to most of these questions then you are probably self-employed already, and should let HMRC know this immediately if you have not already done so. You may be fined £100 if you fail to register within three months of becoming self-employed.

If you answer "no" to most of the questions above, you will normally be an employee.

Sole Trader

Being a sole trader is the simplest way to run a one-person business, and does not involve paying any registration fees. Keeping records and accounts is straightforward, and you get to keep all the profits. But you are personally liable for any debts that your business runs up, which can make this a risky option for businesses that need a lot of investment.

The advantages of being a sole trader include independence, ease of set up and running, and that all the profits go to you. The disadvantages include a lack of support, unlimited liability and the fact that you are personally responsible for any debts run up by your business.

Partnership
In a partnership, two or more people share the risks, costs, and responsibilities of being in business. Each partner is self-employed and takes a share of the profits. Usually, each partner shares in the decision-making and is personally responsible for any debts that the business runs up.

Unlike a limited company, a partnership has no legal existence distinct from the partners themselves. If one of the partners resigns, dies or goes bankrupt, the partnership must be dissolved.

A partnership is a relatively simple and flexible way for two or more people to own and run a business together. However, partners do not enjoy any protection if the business fails.

Limited Liability Partnership (LLP)
A limited liability partnership (LLP) is similar to an ordinary partnership, in that a number of individuals or limited companies share in the risks, costs, responsibilities and profits of the business.

The difference is that liability is limited to the amount of money they have invested in the business and to any personal guarantees they have given to raise finance. This means that members have some protection if the business runs into trouble.

Limited Company
Limited companies exist in their own right, distinct from the shareholders who own them. This means their finances are clearly separated from the personal finances of their owners.

Shareholders may be individuals or other companies. They are not responsible for the company's debts (unless they have personally guaranteed a bank loan, for example). However, they may lose the money they have invested in the company if it fails.

Main types:
- Private limited companies can have one or more members (e.g. shareholders). They cannot offer shares to the public (e.g. on the stock exchange).
- Public limited companies (PLC's) must have at least two shareholders and can offer shares to the public. A plc must have issued shares to a value of at least £50,000, before it can trade.
- Private unlimited companies - these are rare and usually created for specific reasons.