



**Howsons**  
Chartered Accountants

*Starting a New Business*

## What Business Structure Shall I Use?

**You've made that all-important decision to be your own boss.** Now it's time to take the bull by the horns and decide on the best type of business for you.

The decision that you make now on which business structure to use, will have repercussions on the way you are taxed and the liabilities you could potentially incur.

We have outlined the options available, but you should always seek professional advice to determine the best choice for you in your circumstances. Howsons can discuss your plans in-depth and consider the most appropriate route to take.

### Being a sole trader

This is the simplest and cheapest way of trading but there are pros and cons.

- Registration is relatively straightforward. You must register with HM Revenue & Customs as self employed within 3 months of starting up, otherwise you face a £100 fine.
- Record keeping is simple. Accounts must be prepared each year and will form the basis of how your tax and national insurance is paid.
- After tax, all profits can be retained.
- An individual is the owner and consequently retains complete control.
- All liability rests with the owner. If there are any debts, the owner is legally liable – even if that means selling personal possessions to fulfil payment of the debt.

### In Partnership

Essentially, this is an extension of being a sole trader. A group of two or more people will come together, pool their talents, clients and business contacts to build a more successful business than could be achieved individually.

- Partners will have to agree to share the profits, in accordance with a pre-determined formula. In the absence of an agreement, profits are deemed to be shared equally.
- Each partner has to register with HMRC as self employed.
- Partners are taxed as sole traders, but only on their own share of profits.
- A formal Partnership Agreement should be drawn up which sets the rules of how the partners will work together.
- Partners are 'jointly and severally' liable for partnership debts. If one partner is unable to pay their share of the debt, it becomes the responsibility of the other partners to fulfil this shortfall. This is a

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major consideration before you enter a partnership as you can become liable not only for all partnership debts but also the debts of your partner.

### Limiting liability with a Limited Company

A limited company is a separate legal entity from its owners. It can trade, own assets and incur liabilities in its own right.

- If you work for the company, you are both the owner and employee. Ownership of the company is recognised by owning shares in that company.
- When a company makes profits, they are the company's property. Owners can only extract money by way of dividend; or as a salary as an employee. You can have a balance of these two and limit your overall tax and national insurance liability.
- Companies pay corporation tax on profits after paying salaries and before allocation of dividends.
- Personal liability is limited to the nominal share capital you have invested.
- Your accounts must be published each year.
- Additional administrative factors are incurred with companies such as statutory account preparation, company secretarial obligations and Pay as You Earn (PAYE) procedures.

Howsons are well placed to take care of all these administrative functions for you, leaving you free to concentrate on running your business.

### What exactly is a Limited Liability Partnership (LLP)?

Legally, this is similar to a limited company. Administration is handled like a company with the exception of taxation, which is treated like a partnership. The profits are treated as personal income of the members.

- Each partner has to register with HMRC as self employed.
- LLPs are more suited to medium and large-sized partnerships.
- The key advantage, compared to a traditional partnership is that members of a LLP can limit their personal liability if something goes wrong with the business.
- LLPs have to produce and publish financial accounts to the same level of detail as a limited company, and will have to submit accounts and an annual return to the Registrar of Companies each year.

### Fulfil the legal requirements before opening for business

If you intend to trade under a different name to your personal name, you must display the name(s) of owners and an address where documents can be served on all business stationery and at your premises. Design letterheads, business cards and signage accordingly.

Choose your business name carefully. Certain words and expressions are restricted (under the Business Names Act 1985 and the Company and Business Names Regulation 1981). Howsons can supply you with a list of these words, as can, Companies House and the National Business Register.

It would be impractical to have the same or a similar name to that of another business, trademark or company; and you could face legal action from the owner. Always check phone books and magazines to minimise the risk of duplication. You can also run free name checks against the National Business Register.

If you are planning to use a limited company, check that the name is not already being used. More information is available from [www.anewbusiness.co.uk](http://www.anewbusiness.co.uk)

## How we can help

We will be happy to discuss your plans and the most appropriate business structure with you. The most appropriate structure will depend on a number of factors including consideration of tax implications, legal entity, ownership and liability. Howsons can get you up and running with the right structure within days (on the day if needs be!).

## Call our New Business Specialists for more help

We have offices throughout Staffordshire. Our new business specialists are:

**Stoke Office – 01782 848838**

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