

# BriefingNote

## Business Structures

### Which Should I Use?

Having made the decision to start your own business, it is important to pick the best legal and taxation structure. The most suitable structure for you will depend on your personal situation and your future plans. The decision you make will have implications for the way you are taxed, your exposure to creditors and other matters.

**The possible options you have are as follows.**

### Sole Trader

This is the simplest and administratively cheapest way of trading. There are only a few formalities to trading this way, the most important of which is informing HMRC. You are required to prepare accounts each year and they will form the basis of how you pay your tax and national insurance. Any profits generated as a sole trader are automatically yours. The business of a sole trader is not distinguished from the proprietor's personal affairs so that if there are any debts, you are legally liable to pay them.

### Partnership

A partnership is an extension of being a sole trader. Here, a group of two or more people will come together to build a business. The partners will agree to share the joint profits and interests in capital assets in pre-determined percentages. It is advisable to draw up a Partnership Agreement which sets the rules of how the partners will work together.

Partners are taxed in the same way as sole traders, but only on their own share of the partnership profits. There is no restriction on exposure to business creditors; partners are 'jointly and severally' liable for the partnership debts.

One key aspect of partnership taxation is that for capital gains tax purposes the partnership is transparent ie any assets are deemed to be owned by the partners individually and taxed accordingly.

### Limited Liability Partnership (LLP)

An LLP is legally similar to a company but is normally taxed as a partnership. Members of an LLP have the limited liability, administrative and statutory obligations of a company but are taxed as partners.

### Limited Company

A limited company is a legal entity separate from its owners. It can trade, own assets and incur liabilities in its own right. Ownership of the company is recognised by owning shares. When a company generates profits, they are the company's property. Should you wish to extract money from the company, you must either pay yourself a dividend, as an owner, or salary, benefits and pension contributions as an employee/director. The advantage to you is that you can have a balance of these to minimise your overall tax liability. Companies themselves pay corporation tax on their profits after paying remuneration but before dividends. Effective tax planning requires profits, remuneration and dividends to be considered together.

There are additional administrative factors in running a company, such as statutory accounts preparation, company secretarial obligations and PAYE (Pay As You Earn) procedures. A big advantage of owning a limited company is that your personal liability is limited to the nominal share capital you have invested. Many of these administrative issues are also relevant to LLPs.

This Briefing Note is a short selection of items extracted from complex legislation. Further specific advice on any matters referred to must be taken at all times. The information is given for general guidance only and publication is without responsibility for loss occasioned to any person acting or refraining from acting as a result of the information given. No part of this publication may be reproduced without the prior permission of Mercer & Hole.

St Albans

T: +44 (0)1727 869141  
stalbans@mercerhole.co.uk

London

T: +44 (0)20 7353 1597  
london@mercerhole.co.uk

Milton Keynes

T: +44 (0)1908 605552  
miltonkeynes@mercerhole.co.uk