

When you're setting up in business, you'll need to decide on the 'trading form' it will take. Getting the right option for you means finding the right balance between keeping the administration simple, protecting your personal assets and how you will be taxed in each case

# Forming a business

## Sole trader

**Becoming a sole trader is the most straightforward way to set up in business**

Setting up in business as a sole trader is quick and easy and involves little of the form-filling associated with starting and running a limited company. Sole traders make their own business decisions and don't have to answer to anyone else.

Sole traders are personally responsible for any losses the business makes.

This means your own possessions — including your home — could be at risk if you can't pay your debts. And you may also find it difficult to get finance to fund your business.

Once you're operational, you must keep a record of the business's income and outgoings.

Despite the name, you don't have to be on your own: a sole trader can take on employees.

Although sole traders are often taxed as self-employed, this isn't automatically the case even though you'll be working for yourself. If you are self-employed, you must register with the Inland Revenue within three months of starting up (see **Next steps** below).

### Next steps

- See *Employed Or Self-Employed?*, page 10

- *It's a good idea to seek help from a business adviser or solicitor when deciding the best legal form for your business*
- *If you are self-employed, you must register with the Inland Revenue. Contact 08459 15 45 15; [www.inlandrevenue.gov.uk/startingup/index.htm](http://www.inlandrevenue.gov.uk/startingup/index.htm)*

## Partnership

**Forming a partnership allows two or more people to set up in business together, sharing profits, management burdens — and risks**

Partnerships allow you to share the responsibility of managing a business. And joining forces with other people may mean you have more money to invest in the business.

Partners share personal responsibility for business debts. They put their own possessions on the line — including their home — if things go wrong. If one partner can't pay their share of any debts, the other partners become responsible for it.

Remember that a partner can make business decisions or enter into binding contracts without the consent of other partners. It's sensible to draw up a partnership agreement, setting out how the partnership will be run and how the proceeds will be split (it's best to use a solicitor). This will help to prevent disputes.

Partners are often taxed as self-employed but this isn't always the case. If you are self-employed, you must register with the Inland Revenue within three months of starting up (see **Next steps** below).

### Next steps

- See *Employed Or Self-Employed?*, page 10
- *It's a good idea to ask a solicitor to help you set up a partnership agreement*
- *If you are self-employed, you must register with the Inland Revenue. Contact 08459 15 45 15; [www.inlandrevenue.gov.uk/startingup/index.htm](http://www.inlandrevenue.gov.uk/startingup/index.htm)*

## Limited liability partnership

**A limited liability partnership or LLP shares many of the features of a normal partnership — but it also offers reduced personal responsibility for business debts**

Members of a limited liability partnership (LLP) are protected from personal responsibility for business debts.

Their 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.

As with a traditional partnership, you share

## Check for changes in the law

Regulations, figures and sums of money may have changed since publication. Update check:  
0845 600 9 006  
[www.businesslink.gov.uk/figures](http://www.businesslink.gov.uk/figures)

management responsibilities and potentially have more money to invest in the business.

But forming an LLP is more expensive and complicated than setting up a partnership.

You have to send a registration document (Form LLP2) to Companies House and pay a £95 fee. A solicitor or company formation agent can help you set up an LLP if you wish.

An LLP also brings a number of extra running costs. For example, you have to make financial information about your business publicly available by sending a copy of its annual accounts to Companies House. You must also submit an annual return giving key details of the LLP and its members.

LLPs also have to have their accounts audited. But those with a turnover of less than £5.6m and a balance sheet total of less than £2.8m are normally exempt.

You should draw up a partnership agreement setting out how the LLP will be run and how profits will be shared.

Members of limited liability partnerships are often taxed as self-employed but this isn't always the case. If you are self-employed, you must register with the Inland Revenue within three months of starting up (see **Next steps** below).

You can't form an LLP if your business will be a charity or not-for-profit organisation.

And LLPs aren't currently available as a business form in Northern Ireland.



*We went for limited company status straight away as we felt it would gain our customers' confidence more quickly*



John Lawler  
Madventurer  
gap-year travel company  
Newcastle upon Tyne

## Next steps

- See *Employed Or Self-Employed?*, page 10
- It's a good idea to ask a solicitor to help you draw up a partnership agreement
- If you are self-employed, you must register with the Inland Revenue. Contact 08459 15 45 15; [www.inlandrevenue.gov.uk/startingup/index.htm](http://www.inlandrevenue.gov.uk/startingup/index.htm)
- You can get Form LLP2 from Companies House. Contact 0870 3333636; [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)
- For more information read: *Limited Liability Partnerships — Formation And Names (GBLLP1)*. Contact 0870 3333636; [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

## Limited company

**A limited company may offer reduced responsibility for business debts — but it brings a range of extra legal duties, too**

Private companies limited by shares generally protect the individual from personal responsibility for business debts. Your personal risk will be restricted to how much you invest in the business and any financial guarantees you have given in order to obtain financing.

However, if the company fails and you have not carried out your

## How I went about forming my business

After being made redundant, computer engineer Roger Bee set up Netguides Limited with his wife Dawn, operating at first from their spare room. Today, their Internet services company turns over £350,000 a year and employs ten people



After I was made redundant, working with the Internet seemed to be something I could do from home without a lot of development funding.

I set up as a limited company because I decided to be a service to other businesses primarily. So I wanted to be able to put 'limited company' on our letterheads, and sign myself 'director'. It made it look as if we were well-established and not just one guy working from his spare room — which is what we were really.

It was a perception thing but when we started trying to get business from large organisations I'm sure that's what got us through the door.

We VAT-registered for the same reason.

Dawn and I did look at forming a partnership but it didn't seem to have enough advantages for us. Also, we wanted a business that would grow, so we knew we'd have to go limited eventually. We thought we may as well do it from the start.

We could have bought an off-the-shelf company but our legal adviser said it would benefit us to incorporate under a name of our choice and handle the process ourselves. Our solicitors interviewed us, asking us what we wanted to do, and they made sure our Articles of Association covered all the areas we intended to work in. It was quite painless.

We'd already spent a lot of time thinking about a name and had had several ideas. One was Amaze, but although that was

available as a domain name on the Internet it was already taken at Companies House. We needed to consider both aspects.

A lot of Internet service providers have boxes on the front of their website where you can type in a name and see if it's available as a domain. We did the online Companies House search for an available name, too. It's a free service and very valuable.

We plumped for Netguides because the business strategy then was to write an Isle of Wight Net guide followed by others. That never happened because the business took off in a totally different direction but the name's still fine. We see ourselves as Internet consultants, guiding people in how to use the Net. I think it would be a disadvantage to pick a name that was too





*Researching a name was important for Roger*

specific. You don't know which way a business will go.

Setting up was very straightforward and only cost us a few hundred pounds. Next was getting the company image right — but because we had the right name and were limited, we could start working on that.



**Netguides Limited**  
Newport, Isle of Wight  
Tel 01983 532255  
[www.netguides.co.uk](http://www.netguides.co.uk)

duties as a company director, you may be liable to pay the company's debts or be disqualified from acting as a director in another company.

You can raise money for the business by allowing individuals or other businesses to subscribe for shares in the company.

You can also give employees the opportunity to own a share in the business.

Alternatively, the company may seek loans from banks or other lenders, although lenders will normally want personal guarantees for the loan from you. Setting up a limited company may also bring marketing advantages if it adds to the perceived credibility of your business.

Limited companies pay corporation tax on their profits, while you will be taxed like an employee of the company in the same way as anyone else who works for you (see **Next steps** below).

There are extra administrative costs associated with setting up a limited company. The company must submit annual accounts and tax returns to the Inland Revenue — on top of any returns you must send on your own behalf (see **Next steps** below).

A set of accounts also has to be sent to Companies House, making financial information about your business publicly available. You must also send Companies House annual returns giving certain details on the company and its directors and shareholders.

### You also need business advice

*This guide covers regulations. You should also read a guide to general business advice — from market research to writing a business plan*

Limited companies must also have their accounts audited. But most small companies with a turnover of less than £5.6m and a balance sheet total of less than £2.8m are exempt.

To set up a limited company, you need to create a memorandum of association and articles of association, which have to cover issues such as who will be running your business, what it will do and where it will be based.

These documents, along with the standard registration documents (Forms 10 and 12), must be forwarded to Companies House before you can start trading. The registration process costs £20, or £80 for a same-day service.

Company formation agents can handle the process (for a fee) and, while you can do it yourself, it's worth taking advice from a solicitor or a formation agent to make sure you get it right first time. You can also buy an 'off-the-shelf' (ready-made) company from a formation agent or solicitor — speeding up the process.

### Next steps

- See *Tax For A Limited Company*, page 12
- See *The Tax Return For Companies*, page 17
- See *Working Out Tax And NI For Employees*, page 18
- You can get the standard registration documents (Forms 10 and 12) for setting up a

limited company from Companies House.  
Contact 0870 3333636;  
[www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

- Forms for the memorandum of association and articles of association are available from legal stationers
- For more information read: *Company Formation (GBF1)*.  
Contact Companies House:  
0870 3333636;  
[www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

## Choosing the right name

**The right name for your business can help you stand out from the crowd — but there are a few restrictions which could affect your choice**

Sole traders or partnerships can trade under their own names or choose a different business name. However, if you choose something other than your own name you will have to include your own name and the business address on all business stationery.

You must register the name of a limited company or limited liability partnership when it is formed.

You cannot use offensive names. And your proposed company name must not be the same as another name already appearing on the register at Companies House.



*It's not difficult to set up as a sole trader. You can be seen as a one-man band, although I say I'm self-employed or that I have my own business*



Kerri Binnie Middleton  
K TWO Products Ltd  
giftware design and manufacturing  
Edinburgh

### Advice in Scotland

*Business Gateway in Lowlands*  
(0845 609 6611;  
[www.bgateway.com](http://www.bgateway.com));  
*Highlands & Islands Enterprise*  
(01463 234171; [www.hie.co.uk](http://www.hie.co.uk))

There are restrictions on the use in a business or company name of a number of 'sensitive' words and expressions — such as 'Royal' or 'Institute'. Further details of what is allowed can be found in the Companies House booklets listed in **Next steps** below.

You should check the availability and suitability of company names with Companies House before completing the company registration documents. You can't reserve intended company names for your possible future use.

When choosing a name, you may want to consider whether you will want to set up a website in the future.

If so, it's a good idea to check the name is available as a web address (domain name) and register it, so your customers will be able to find your website easily.

Nominet UK is the registry for .uk domain names and also provides advice on registering and maintaining your Internet name (see **Next steps** below).

### Next steps

- You can check your name isn't the same or similar to that of another company or limited liability partnership on the Companies House website.  
Contact  
[www.companieshouse.gov.uk/info](http://www.companieshouse.gov.uk/info)
- Make sure your company name doesn't conflict with any registered trade marks. Contact

the Patent Office Trade Mark Database: [www.patent.gov.uk](http://www.patent.gov.uk)

- You can check availability of domain names at Nominet ([www.nic.uk](http://www.nic.uk)) or NetNames ([www.netnames.co.uk](http://www.netnames.co.uk))
- See *Business Names And Domain Names*, page 40
- For more information on naming your business, read: *Company Names (GBF2)*; *Business Names (GBF3)*. Contact Companies House: 0870 333636; [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

## Franchises, social enterprises, co-operatives and charities

**Your new enterprise may have different aims or ways of running itself, such as those featured below. But you still need to establish it within a conventional legal business form, such as a partnership or limited company, for instance**

Buying a franchise allows you to set up your business without starting from scratch. You buy a licence from an existing business (the franchisor) to use their trade name, business idea or products and services.

This normally involves paying an initial fee followed by an ongoing management fee or royalties on sales. In return you get support and advice from the franchisor.

Franchising has a number of advantages and disadvantages — a business adviser will be able to tell you more and you should get a solicitor to check any franchise agreement.

Social enterprises are businesses that aim to make a profit to help them fulfil social aims such as creating or saving jobs, keeping money within the local economy, providing services to the local community or training.

Social enterprises are accountable to their members and to the wider community for their social, environmental and economic impact.

Co-operatives are one form of social enterprise. A workers' co-operative is a business owned and democratically controlled by its employees.

Remember that a social enterprise isn't a 'trading form' in itself. If you're interested in setting up a social enterprise you should ask your business adviser which structure would be most suitable.

However, a new trading form — the community interest company or CIC — is due to be introduced in 2005. This will provide social enterprises with the flexibility of the company form.

If you want to set up a charity, you normally have to register with the Charity Commission. Charities benefit from certain tax advantages but have a range of restrictions placed on their activities.

Charities can take a range of business forms — you should contact the Charity Commission for further guidance (see **Next steps** below).

### Next steps

- You can get more information on social enterprises, co-operatives and franchises on the Business Link website. Contact [www.businesslink.gov.uk/startingup](http://www.businesslink.gov.uk/startingup)
- For more information on community interest companies, contact [www.dti.gov.uk/cics](http://www.dti.gov.uk/cics)
- The Charity Commission can provide you with more information on registering a charity. Contact 0870 333 0123; [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)