Briefing Note

Business Structures

Types of Structure

1. Sole Trader – does not involve paying any registration fees; keeping records and accounts is straightforward and sole trader keeps all the profits. However, sole traders are personally liable for any debts that the business has.
2. Ordinary Partnership – created under the Partnership Act 1890. Each partner is liable for all partnership debts and obligations in full regardless of the amount of the individual partner's capital contribution. Often regulated by a Partnership Agreement.
3. Limited Liability Partnership (LLP) – this is a hybrid between a company and an ordinary partnership. An LLP has separate legal personality and the partnership liabilities and debts belong to the LLP not the individual members. Accounting and filing requirements are broadly the same as those of a company, however it is taxed as a partnership. Again, often regulated by a Partnership Agreement.
4. Limited Company (limited by shares) – this is the most common structure. A private limited company is not allowed to offer its shares to the general public. Members' liability is limited to the amount unpaid on shares they hold. Regulated by Articles of Association and any relevant Shareholders' Agreement;
5. Limited Company (limited by guarantee) – this is just like a company limited by shares but it does not have a share capital and members' liability is limited to the amount they have agreed to contribute to the company's assets if it is wound up, often £1. This is a common structure for non profit making organisations such as charities and the new Scottish Charitable Incorporated Organisation ("SCIO");
6. Public Limited Company – A company which has shares that can be purchased by the public and which has allotted share capital with a nominal value of at least £50,000.

Other types of business do exist, for example unlimited companies, Limited Partnerships and Industrial and Provident Societies but these are rare.

Which structure?

Tax treatment is usually the main consideration for what structure you choose. For example, an LLP is generally treated as "tax transparent". The LLP will not itself be subject to tax on its profits (although it will still have to file a partnership tax return). Instead, the members of the LLP will be subject to tax.

A limited company, on the other hand, is subject to corporation tax on profits. The individual shareholder will then be subject to income tax on dividends (though corporate shareholders should be able to benefit from an exemption from corporation tax on dividends). Being self employed means profits are taxed as income.

Other considerations include disclosure requirements, marketing (PLCs), control/management structure, changes in participation, risk sharing and financing.

Please contact Turcan Connell's Business Law team for more information on business structures.

Please note that this briefing note is intended as a short summary of business structures. No responsibility can be accepted for any action taken in reliance on this note and specialist advice should be taken in every case. Turcan Connell would be happy to provide such advice.