

Business Support Guides

Your Business supported in a few Simple Steps

Guide 9: Different Business Types



Hull
City Council

Managed Workspace Centres

When looking to start a business, one thing to consider is what type of business suits your status. There are numerous types to consider and it is really important you choose the one that is right for you and your business's needs.

As part of your set-up considerations are made within the business – from winning customers to finding suppliers and even setting up a bank account that is right for you. Often one of the most important factors is overlooked...choosing the right type of company structure that reflects your type of business.

In this short guide we look at the various types of business structures and hope to help you make a decision that is right for you. As with any new business venture, we strongly advise that you seek professional advice. As part of the service offered at our Managed Workspace Centres, we offer tailored support in assisting you with making the correct choice.

Sole Trader

“A person who is the exclusive owner of a business, entitled to keep all profits after tax has been paid but liable for all losses.”

A sole trader is one that starts a business, running it as an individual, not a company and is a very popular route. It tends to be particularly common amongst those going into business on their own for the first time. As a sole trader you are personally liable for the business debts and personal assets may be at risk if creditors cannot be paid.

It's common to find web designers, gardeners, builders, beauticians and other individual providers of specialist services operating as sole traders. But other types of business operating as sole traders are found within small shops and small manufacturers.

Sole Traders do not have a director or directors running the business, this is down to the individual, the sole trader. When applying as a sole trader you can register your business in a company name, but unlike a limited company there is no requirement to register the business with Companies House or make ongoing filings of information with them.

Business Partnership

“A partnership is an arrangement between two or more people to oversee business operations and share its profits and liabilities.”

Business Partnerships can be a bit trickier to understand as there are several types of partnership arrangements.

Ordinary Partnership - you and your partners personally and jointly share responsibility for the running of the business.

Limited Partnership - liability for debts can fall to specific partners rather than shared equally.

Limited Liability Partnership (LLP) – this can often be seen more like a limited company - where partners are not personally liable for debts and liabilities.

It's vital that with any partnership agreement, an expulsion clause should be included, detailing what events are grounds for expelling a partner. You should always take into account the so-called “silent partner”, in which one party is not involved in the day-to-day operations of the business.

is VAT registered. VAT invoices must have all the required information on them eg, the VAT registration number. Most items are VATable at the standard rate (currently 20%) but some items are chargeable at the reduced rate of 5% or are zero rated (0%).

Limited Company

A private company whose owners are legally responsible for its debts only to the extent of the amount of capital they invested.

A limited company is a business structure whereby a company is considered a legally distinct body. In other words, it is kept legally distinct from the people who run it and finances are kept separate from the owner's personal finances.

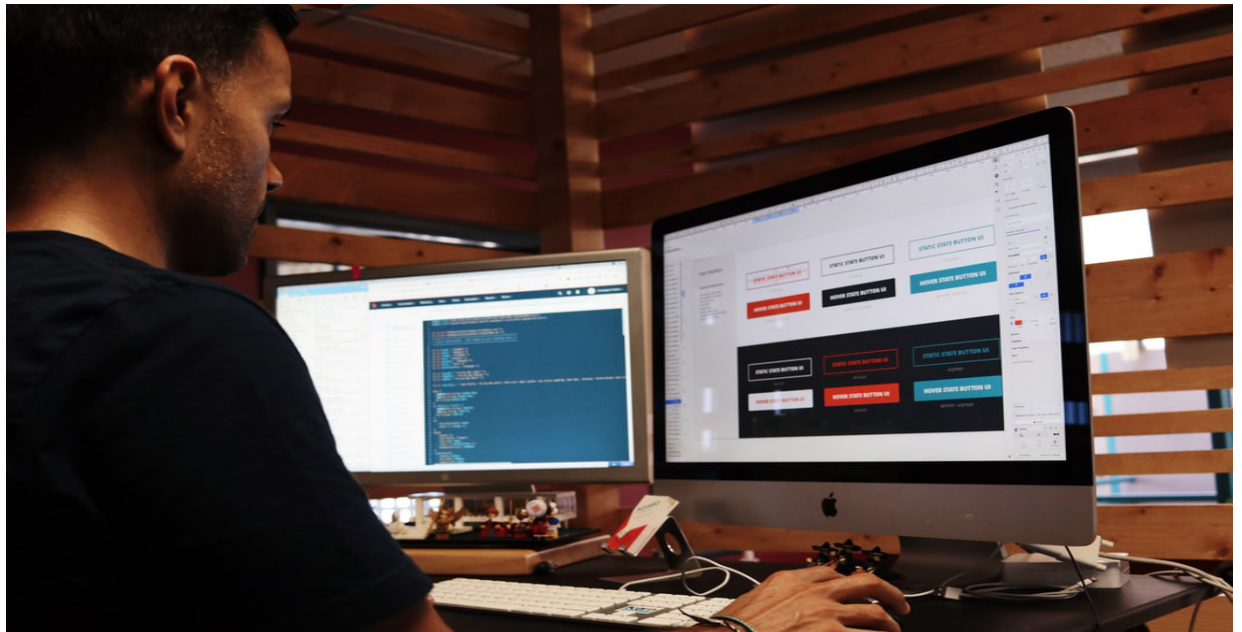
As a limited company the business is able to own assets and keep any profits it makes after tax. It's important to understand that there are two different kinds of limited companies;

- Private limited companies
- Public limited companies.

The most common set-ups for small businesses are **Private limited companies**, which cannot offer shares to the general public.

Public limited companies can raise capital by offering shares to the general public. Shares are then traded on the stock exchange. These types of businesses are not generally associated with smaller companies.

To set up a limited company you will need to register with Companies House – this is called incorporation.



Social Enterprise

“A social enterprise is an organisation that applies commercial strategies to maximise improvements in financial, social and environmental well-being—this may include maximising social impact alongside profits for co-owners”

Social enterprises are businesses which blend profit with social purpose. It's important to remember that Social Enterprises can be for profit and operate in a similar way to Limited Companies. The main difference is that Social Enterprises need to have a goal which will make a positive and beneficial impact on society.

It is vital that you have a clear mission statement and that the majority of your income comes from trading. With Social Enterprises the majority of your profits are reinvested and your social mission is your top priority.

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