



| CHARTERED CERTIFIED ACCOUNTANTS |



One of the first major decisions and one which has implications on how you are governed by law. This also dictates how you are affected by tax and regulations.

# Legal Entities

## Profit Making

### Sole Trader

- Owned and operated by one individual.
- Legally the business and owner are not separate entities.
- Sole trader has ownership of all assets, and is responsible for any liabilities and debts incurred by the business.
- Easiest entity to form (no costs or paperwork).
- Must register for self-assessment tax with HMRC.
- All profits after tax can be kept.

### Partnership

- Owned and operated by between 2-20 people.
- Legally the business and owners are not separate entities.
- A 'Deed of Partnership' will be drawn up outlining roles and breakdown of ownership.
- Each member has ownership of assets and responsible for liabilities.
- Must file an income tax return. This info is combined with income from each member to calculate their tax liability.

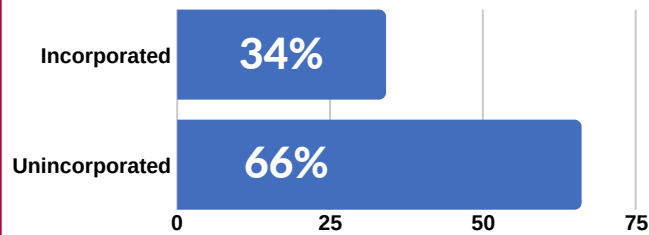
### Limited Liability Partnership (LLP)

- An LLP, just like a traditional partnership but offers limited liability.
- Legally a separate entity to its owners, protecting them against debts or litigation.
- Must file annual accounts.
- Like a traditional partnership owners are taxed on their profit share.
- Must file details of every member with Companies House.

### Limited Companies

- Owned and controlled by shareholders.
- More difficult to form. Various paperwork including a Memorandum, Articles of Association, and attain approval for the proposed name from Companies House.
- Legally separate entity to its owners, protecting them against debts or litigation.
- Must file annual accounts, and corporation tax returns (CT600) with HMRC in order to pay taxes on earnings from operations.

### Type of Entity Formed (%)



According to the Department for Business, Energy & Industrial Strategy (as of the start of 2018)

## Non-Profit Making

### Charities

- Most charitable organisations are exempt from paying corporation tax. However, if the charity has a shop trading with the public it will need to pay corporation tax on any income.
- Structurally charities are the same as any other company, with the biggest differences being the purpose for community improvement, and non-profit making.
- Revenue is typically raised through campaigns to fund operations, with surplus going to employees.

### Community Interest Company (CIC)

- A CIC is a form of limited company but operates in order to benefit the community rather than private shareholders.
- Requires registering with Companies House with a 'Community Interest Statement' outlining the aims of the company.
- Annual accounts and reports must still be filed, along with information about how the CIC was funded, and the benefit to the community over the previous year.

The legal entity you formulate will have a profound impact on the way you conduct certain functions within your business, not to mention having an impact on how you will be governed by law, and the requirement in order to stay compliant with the relevant tax authorities.



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