



## Business structure: Limited Company, LLP Partnership or sole trader

Comparison: Ltd, LLP, Partnership or sole trader

	LTD	Partnership	Sole Trader
<b>Who owns</b>	Shareholders	Partners	Individual
<b>Who manages</b>	Directors	Partners	Individual
<b>Who is liable</b>	Company	Partners	Individual
<b>Who pays tax</b>	Company	Partners	Individual
<b>Type of tax</b>	Corporation Tax	Income Tax	Income Tax

*The table above compares some of the key features of a UK Ltd to those of a UK Partnership and Sole Trader. A limited liability partnership falls somewhere between an Ltd and an ordinary partnership.*

## UK business structures

When you start a UK business you must choose a structure that is appropriate to you. The decision is important because it will determine your legal responsibilities, for example:

- the rules you need to follow to set it up
- the taxes you'll have to manage and pay
- how you can personally take the profit your business makes
- your personal responsibilities if your business makes a loss

The structure is also important from the perspective of gaining investment and on whether you want to manage and own the business on your own or with some-one else.

## Types of UK business

There are four main business structures that are commonly used in the UK:

- limited companies (Ltd or Plc)
- sole traders
- Normal business partnerships
- Limited liability partnerships (LLP)

## Limited company

A limited company is responsible in its own right for everything it does and its finances are separate to your personal finances. Any profit it makes (after it has paid Corporation Tax) is owned by the company. The company can then share its profits with its owners. Private limited companies (Ltd) are the most common type of Limited Liability Company. Public limited companies (Plc) tend to be used for larger companies, such as those listed on a stock exchange.

## Ownership and management



Every limited company has “members” – people or organisations who own shares in the company. Members are also called shareholders.

Companies also have directors, who are responsible for running the company. Directors often own shares, but they don't have to. A private limited company may have just one shareholder and just one director. The director and shareholder can be the same person.

## Legal responsibilities

There are many legal responsibilities involved with being a director and running a limited company. We refer you to our short blog: [Ltd company director's responsibilities](#)

## Tax responsibilities

Every financial year, the company must:

- put together statutory accounts
- send Companies House an annual return
- send HMRC a Company Tax Return

The company must register for VAT if turnover is expected to be more than £81,000 a year (Budget 2014).

## Director's tax responsibilities

As a director of the company, you are also an employee. This means that personal income and business income are separate when it comes to paying tax. If you're a director of a limited company, you must:

- fill in a Self-Assessment tax return every year
- pay tax and National Insurance through the PAYE system if the company pays you a salary

## Sole trader

You are a sole trader if you run your business as an individual. In this case you keep all your business profits after you have paid income tax on them. You can still take on staff. Sole trader just means that there is one person (you) responsible for the business. It does not mean that you have to work alone.

## Legal responsibilities

As a sole trader you are personally responsible for:

- any losses your business makes
- bills for things you buy for your business, like stock or equipment
- keeping records of your business' sales and spending

## Tax responsibilities

As a sole trader you must:

- send a Self-Assessment tax return every year
- pay Income Tax on the profits your business makes
- pay National Insurance

You must also register for VAT if you expect your turnover is expected to be more than £81,000 a year (Budget 2014).



## Ordinary business partnership

In a business partnership, you and your business partner (or partners) personally share responsibility for your business. You can share all your business' profits between the partners any way that you agree. Each partner pays income tax on their share of the profits.

Partnerships in Scotland (known as 'firms') are different. They have a separate legal personality to that of the individual partners.

### Legal responsibilities

You're personally responsible for your share of:

- any losses your business makes
- bills for things you buy for your business, like stock or equipment

If you don't want to be personally responsible for a business' losses, but you still want to set up as a partnership, you can set up a limited partnership or limited liability partnership.

A partner doesn't have to be an actual person. For example, a limited company counts as a 'legal person', and can also be a partner in a partnership.

### Tax responsibilities

The partnership must nominate a partner. This nominated partner must send a partnership Self-Assessment tax return every year.

All the partners must:

- send a personal Self-Assessment tax return every year
- pay Income Tax on their share of the partnership's profits
- pay National Insurance

The partnership will also have to register for VAT if your turnover is expected to be more than £81,000 a year (Budget 2014).

## Limited liability partnership

The partners in a limited liability partnership aren't personally liable for debts the business can't pay. Their liability is limited to the amount of money they invest in the business. Limited liability partnerships are most often set up by professional services firms, like solicitors or accountants.

### Tax responsibilities

Every year, the partnership must send a partnership Self-Assessment tax return to HM Revenue & Customs (HMRC).

All the partners must:

- send a personal Self-Assessment tax return every year
- pay Income Tax on their share of the partnership's profits
- pay National Insurance

You must also register the partnership for VAT if you expect your turnover is expected to be more than £81,000 a year (Budget 2014).