



Business Legal Forms

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Starting a new business is exciting and the UK government made it simple and cheap to start a new business for everyone. In the UK there are on average 10,000 new entrepreneurs every week so why can't you be one of them?

Just having an idea isn't usually enough to start a business. There are many important factors which will influence your success such as the legal set up, knowing your customers or getting the right finance. In this issue we will focus on choosing the legal form for your business.

Legal Forms

The legal form of your business will impose some duties on you, determine taxation treatment and can also affect your private life and assets. Therefore, your long term business goals must be clear to select the best legal form.

- Representative office – If your aim is only to promote the business of the parent company then this basic form might be suitable. To maintain its status for tax purposes, it cannot directly sell services to local customers. It can only distribute and gather information.
- Branch – This is a step up from a Representative Office because Branch can negotiate contracts. You need to register with the Companies House and file the parent's company constitutional documents and audited accounts. Your operating costs can usually be offset against the parent company profits.
- Self Employed / Sole Trader – For a business on your own this is the easiest set up. Registration with HMRC can be done over the telephone and your existing bank can open an account in your trading name within a day. You are required to keep basic accounting records, your tax year will end 5 April and you need to submit a tax self assessment each year.

- Limited Company– LTD's are the most favourite form as they offer certain advantages with regards to tax, asset protection (limited liability) and credibility and confidence when dealing with potential customers, banks or investors. LTD's can be easily set up with Companies House. You need company's Memorandum of Association (sets out the company details and objective), Articles of Association (sets out the internal arrangements); and pay the fee.

LTD's have more paperwork and stricter administration, bookkeeping and account preparation requirements. You need to have at least one company director, which could be the investor, one company secretary, registered office in the UK, and the correct name (not existing and allowed). Larger companies are required to appoint an auditor.

LTD's can be created by shares (standard) or by a guarantee (a charity). The opening capital could be as little as £1 and Companies House will send out a Certificate of Incorporation within 3-10 working days. A fast 1 day service is available too. In practice, investors choose agents/ accountants to do name search and prepare all paperwork for a fee (usually £100 - £250).

- Partnerships – Partnerships are equal business arrangements with other people and registered with the Companies House. The basic partnership form makes all partners jointly and severally liable for all debts (ie. if one partner cannot meet its obligations the other partners need to chip in).

The more popular option is a Limited Liability Partnership (LLP) which gives the benefits of a limited liability but allows its members to set up as traditional partnership, for instance tax calculation is linked to partner's circumstances.

- Joint Ventures JVs – an overseas investor can join a UK investor to form a new limited company or a partnership. Information on possible JV partners is available from relevant trade associations.



Other practical steps

The next steps in setting up a business are around banking, accounting, VAT, PAYE, construction industry scheme (CIS), Business Insurance and Trade Associations rules and standards.

Businesses need to keep proper accounting records. Good practice is to engage a chartered accountant to set up and manage your accounting affairs. This way you are ensuring that all legal requirements are met. When employing staff a PAYE scheme needs to be in place as well as Employer Liability insurance and Health & Safety certificate.

Each business aiming turning over £64,000 per year must register for VAT purposes. HMRC will impose fines for late registrations and demand VAT from your past sales. Voluntary registrations are also available and could be advantageous for certain businesses.

Lastly, depending on the type of business you may need to register with Trade Associations or the Construction Industry Scheme (CIS). The CIS scheme has recently changed making employers more liable when engaging contractors or employees. Electricians, plumbers or food producers need to register with their own associations which impose quality standards on your products and services.

Helrik Chartered Accountants are members of the Chartered Institute of Management Accountants and the Association of Chartered Certified Accountants.

Representative Office	<ul style="list-style-type: none"> • Suitable only for promoting services of parent company • Cannot engage in business or trading
Branch	<ul style="list-style-type: none"> • Running costs can be offset against parent company profits • Need to translate and file parent company accounts in UK
Sole Trader/ Self Employed	<ul style="list-style-type: none"> • Fast registration with only basic accounting • Personal assets at risks
Limited Company	<ul style="list-style-type: none"> • Personal assets protection and often favourable taxation • More stringent accounting and administration
Partnership	<ul style="list-style-type: none"> • Tax linked to each partner's circumstances • Basic form puts personal assets at risk but limited liability partnerships are available
Joint Venture	<ul style="list-style-type: none"> • As for limited companies or partnerships depending on the legal form selected