

# IN-Formed: Guide to Legal Entities



- **Limited Company?**
- **Sole Trader?**
- **Partnership?**
- **Umbrella Organisation?**

If you're just starting out in business for the first time it can seem like a minefield trying to figure out the best way in which to set your business up.

We hope that this guide to choosing the best legal entity for your company will give you everything you need to know to make this decision easier.

## Sole Trader



### PROS:

- **Employment status** – the employment status risk lies with the client, not you
- **Less administration** – fewer statutory obligations mean less paperwork – you just need to submit your personal self-assessment every year
- **Lower accountancy costs** – because accounting is simpler your accountancy costs will be lower
- **Control** – you have complete control over your assets and business decisions. It's also relatively easy to wind up or change structure if you grow

### CONS:

- **Less take home pay** – compared to a limited company you will take home less net pay from an equivalent turnover. You are personally liable to pay tax on all income earned, in other words, all the profit you make rather than just the cash you take out of your business
- **Liability** – you may be personally liable if things go wrong. Your own finances and possessions may be at risk
- **Raising funds** – it can be more difficult to raise funding as it will appear less established and less able to repay
- **Status** – some clients look more favourably at limited companies and will not see sole traders in the same light.

## Partnerships



Partnerships are very similar to a sole trader Partnerships in terms of tax and legal requirements.

However by entering into a partnership remember that you are bound by the business and financial decisions of your partner(s).

A partnership agreement is absolutely essential - please contact us if you would like a recommendation to a good solicitor.



If we can be of further assistance please contact us via:



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## Limited Company



### PROS:

- Credibility – some clients will view a limited company in a more positive light
- Higher take home pay – because of tax efficiency you will take home more pay than a sole trader
- Lower personal financial risk – because of its structure and separation between you and the company, you are protected from the threat of personal financial losses if things go wrong.
- Tax planning – various tax planning opportunities exist which can be tailored to your circumstances where applicable, to deliver significant tax savings.

### CONS:

- Administration – there are greater statutory obligations, such as submission of Annual Accounts, Corporation Tax Returns and VAT Returns.
- Costs – because of the range of statutory obligations there are usually higher accountancy costs and if you don't get things right, higher financial penalties.
- Directorship – Directors of limited companies hold obligations under the Companies Act 2006.
- IR35 – you must show that you are genuinely self-employed and not just a disguised employee. This will typically require an IR35 friendly contract with working practices to match.

## Umbrella Organisation



### PROS:

- It's easy – you can be set up and running very quickly. All you will need to do from an admin point of view is to submit your timesheets
- It's consistent – you will be paid as an employee, with holiday pay and insurance included
- It's worry free – all your tax and NI is automatically deducted, so you know exactly where you stand
- It's flexible – and can be a good choice if your are only working intermittently as it will work for both short and long term contracts

### CONS:

- It's not a tax efficient solution - meaning you will have lower earning potential than in a limited compnt. The greater your projected income is, the greater this differential - see our IN-Formed Guide to Maximising Take Home Pay for more on this
- Your Payments - will all be processed through a third party, so you have little or no control over how and when you get paid
- Your Brand - you will just be considered as another employee, rather than having the opportunity to develop your own brand and enhance you position within your target market.



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