

## Your Legal Questions

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**Q. I am starting a new business. I understand that there are different forms of business structure available. What are these?**

**A.** Businesses can incorporate as limited companies or limited liability partnerships (LLP's) or remain unincorporated, as sole traders or traditional partnerships.

The principal legal benefit of incorporation is that the business is a separate legal entity, distinct from its owners, and is liable for its own debts. This means that the share holders of a company or members of an LLP are usually only liable up to the amount of their investment in the capital of the business i.e. what they paid for their shares or membership. By contrast, a sole trader or partners in a business are potentially liable to the extent of the whole of any personal assets including, for example, their homes.

Personal liability is not limited to their share in the partnership and each partner can be sued for all the debts of the partnership. This is known as "joint and several" liability.

LLP's are a new business format which is a hybrid between a partnership and a limited company. They have been used mainly by large professional firms who have converted to protect the partners from personal liability or have been formed by larger businesses or groups looking to carry out joint ventures or risky trading activities.

Individuals can trade as a sole trader without any formal registration or ongoing reporting obligations. Similarly, no formal documentation is required to trade as a partnership although a properly drawn partnership agreement is strongly recommended.

Compare a limited company or LLP which must register with Companies House and has to file then paperwork each year which becomes a matter of public record.

There are also differing tax consequences and professional advice is essential to ensure that you get the right structure for your business.

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