

Chapter 4 Structure and Setup

Quite early on you'll need to decide how your business is structured and what status it has in the eyes of the authorities.

There are effectively three options.

Sole Trader

A **Sole Trader** is someone who operates a business without any formal company structure. Income from the business is treated by the HMRC as personal income and taxed accordingly and there are fewer options to claim expenses against tax as there are as a formal company.

Further, as this is personal income it is also treated as household income and is not protected in any way from any 'claims' that may be made by anyone else deemed to be part of the household such as in assessments for benefits or in the case of a divorce.

You don't need to do anything special to set up as a sole trader and you don't need a separate bank account. Even if you do set up a separate account it is still treated as part of the household income. All you are required to do is fill in a 'self-employment' form to declare your income on your annual tax return.

Limited Company

A Limited Company however is an entirely separate entity - from you and your household. It is not 'you', but you own it.

Book 1 explains this in more detail.

You need to set up a business bank account and the income you receive has to be paid into that account or separately accounted for in the case of cash receipts and purchases - more on this later.

Limited Company income in itself does not form part of ‘your’ income and is taxed separately under the Corporation Tax rules - sometimes at a lower rate than it would be as personal income.

Your Limited Company income and account is ring fenced from any personal affairs. It’s not ‘your’ money and cannot be construed as such.

When you set up a company you allocate yourself ‘shares’ in the company, usually 100 at a nominal value of £1 each. That is the extent of ‘your’ money in the company and is all you are liable for - hence the name Limited (liability) Company. (In the US these are called LLCs).

It’s easy to set up a Limited Company. It costs £50 on the Government website and the Personal Business Creation System takes you through it step by step.

There are also some ‘loss leader’ deals on offer from various ‘company registration’ providers. You can set up your company for less than £50 as long as you do not take any of the ‘optional’ extra services!

There are more advantages to being ‘Ltd.’ that are covered in Chapter 6, but if you are marketing to public sector organisations and some larger corporates they often insist on trading only with Limited Companies rather than Sole Traders.

Contrary to popular belief a Limited Company only needs one person to set it up - one ‘Director’.

There are a few rules around how you organize a Limited Company and what you are required to do. These have been mentioned in Chapter 3 and will be covered further in future chapters, but one thing to remember is that every year you have to submit outline accounts and pay a small registration fee to Companies House, the national registrar of companies.

Limited Liability Partnership

The third type of company structure is the LLP or **Limited Liability Partnership** which requires at least two people to be involved.

These are popular with groups of professionals such as accountants and lawyers as it allows for an element of separate trading by individual partners under the limited liability umbrella.

Involvement

Next you will need to consider who is involved in your company.

As a sole trader it doesn't really matter but as a Limited Company owner-director you have to declare any 'persons of significant control' (PSCs) who may have some sort of controlling interest or influence over what you do or how you do it.

This could be someone who has loaned you money to get started and who may or may not be a shareholder, or it could be someone who has significant control over what you do in another way. This does not, by the way, include your spouse unless he or she is a shareholder.

There is more to this beyond the scope of this book. It is covered in the PBCS.

One thing though is really important - *really important*.

If you have anyone involved in the business with you including a spouse or (non-business) partner, then you **MUST** draw up a partnership agreement which defines what happens 'if' - and there can be as many 'what if's' as you want.

I advise that you find an independent business lawyer (not necessarily a solicitor) who has experience of independent start up businesses to help you with this.

If you *employ* anyone, the situation is more complex. First you have to have a contract of employment and you also become responsible for a myriad of health and safety rules, employment law rules, and the need to set up a workplace ‘auto-enrolment’ pension scheme for your employee(s).

When looking for a specialist to help you with this you must make sure that they are experienced in dealing with *small start-up businesses* and price their services accordingly.

You may know or work with someone as a trusted advisor or business mentor and you might consider appointing them as a Non-Executive Director of your company. They then have the duty and right to advise you on all matters pertaining to the business but do not have the right of veto when you decide to do something against their strong advice (in which case they’ll probably resign anyway).

Having a NED in your business gives you someone you can discuss things with in confidence, someone to be accountable to and someone you can rely on for expert advice.

Non executives are subject to a standard set of guidelines laid out by the Institute of Directors but you’ll also need a specific agreement with them.

Compliance

Whether you set up a formal company structure or not, you still have a number of ‘compliance’ issues to contend with.

Sole Traders as well as Limited Companies have to comply with all applicable Health & Safety regulations and its essential that you know and understand these before you start trading. It only takes one ‘accident’ or complaint to put you out of business if you don’t know the ‘rules’.

But it all depends what you are doing, what you're providing, and how you're operating. I'll keep repeating this - find an advisor who is familiar with the rules as they apply to small business startups.

If you employ people in any way, which you can do as a sole trader as well as a company - the rules apply. So don't be tempted to pay people in cash for 'odd jobs' unless you're carrying out a 'business to business' transaction with them. That would be illegal.

Then if you have premises, there are fire regulations - and the list goes on.

If you are working from home also be careful.

There may be covenants on your property or rules if you're in rented accommodation that prevent you (apparently) from carrying on a business.

Some of these rules are specific and usually relate to livestock or car dealing, but in general, as long as you are not retailing from home and being visited by a stream of customers or deliveries of stock all day then that's usually acceptable, as it is to hold the occasional promotional event.

It's also acceptable to carry on any form of administrative work from home. The restrictions are all about people visiting the premises in noticeable numbers and having lots of noticeable 'stuff' on and around the property.

Insurance

The next topic to consider is insurance. Depending on what you do you are likely to need both personal (or professional) and public liability insurance, and special insurance for particular things that you do. Anything 'hands on' with people or animals or working with special equipment is likely to need special provision.

Make sure you have your insurance in place before you start.

Legals

Limited Company or not, you will need a set of Terms and Conditions, a Privacy Policy and sometimes some form of 'Disclaimer'.

Terms and conditions are relatively standard and can be copied from a similar provider and amended.

Likewise, there is a 'standard' GDPR compliant Privacy Policy which again be amended to fit your business.

You can do the amendments and then pass them by a lawyer for checking.

It shouldn't take you long, but it's better than paying several hundred or even thousands of pounds to have each of them drawn up from scratch.

Disclaimers again you can copy and amend. These are more specific but the most common are medical disclaimers when you are providing some form of treatment, earnings disclaimers when you are presenting any type of business opportunity, results disclaimers when you are providing coaching, mentoring or training and accident disclaimers when you are providing any form of sports or exercise activity. The list goes on!

Copy and paste from a similar provider, amend, and get someone, preferably a lawyer who is familiar with your area of business, to check it.

Setup

Finally (although you may want to do this first) you'll need to consider how you set up and structure your business depending on whether you are offering and delivering products or services or both.

We'll look at this in more detail in the next Chapter and it is covered fully in the Personal Business Creation System, but the key thing to consider is the difference between time/resource based income and residual or recurring income as discussed in Chapter 1.

The objective in the long term should be for you to create a recurring income that goes on being paid to you regardless of the amount of time and effort you put into the business as explained in detail in 'What they Don't Tell You About Starting a Business'.