

19 Business organisations

A Sole trader

Jamie Anderson, a partner in the commercial department of a law firm, is commenting on the choices for different **trading vehicles** for business.

'A client wanting to operate a business for profit might select from a number of different **trading entities**. Each has different legal characteristics and is subject to different rules and regulations. The simplest and commonest form of business structure is a **sole trader**. This generally suits a relatively small enterprise, such as an independent software developer, a hairdresser, or a small shop. It's headed by a single individual and it differs from a company in that the ownership and management is usually vested in the same person, who is personally responsible for all the **debts** of the business, and may thus risk becoming **bankrupt**. Finances are confidential and formalities are few, aside from Value Added Tax, or VAT, regulations.'

B Partnerships

'A common form of structure for certain kinds of business, for example accountants, solicitors, and architects, is a **partnership**. This needs to have at least two **members** and normally a maximum of twenty. There is an **exemption** on size for some types of firm, such as solicitors and accountants. All the **partners** may be **jointly and severally liable** for all the debts of the business. The relationship between the partners is usually drafted in the **Partnership Agreement**. This can set out the **duration** of the partnership, its name and business, how profits, losses, and running costs are to be shared, how much **capital** each partner is to contribute, what rules will apply to the capital, what **grounds** will lead to a partner being **expelled from the company**, what restrictions are imposed on partners, and so on. It's also possible to have a **Limited Liability Partnership**, or **LLP**, which has a legal identity separate from its members. In this sense it resembles a limited company (see text C). It's possible for all the partners except one, known as the **general partner**, to be a **limited partner**. A **sleeping partner** may have a share in the business but doesn't work in it. An individual is therefore able to invest capital in an LLP without risking any further liability. LLPs must be registered with the Registrar of Companies.'

C Limited Companies

'A **Private Limited Company (Ltd)** is a separate **legal entity** which can **sue**, and be sued, in its own right. The Company is identified by its registered number, which will remain the same irrespective of any changes of name. A business can start life as a limited company and this may be particularly appropriate where high-risk projects are involved. In some instances, directors will be asked to **guarantee the obligations** of a company, for example by giving **security over personal assets** to guarantee company borrowing. This is particularly common in the case of new companies who are not able to demonstrate a history of profitable trading. A **Public Limited Company**, or **PLC**, is differentiated from a Private Limited Company in that the **shares** can be sold to the general public via the stock market to **raise share capital**. It's mandatory for a PLC to have at least two **shareholders**, two directors, and a professionally qualified **Company Secretary**. The **minimum authorised share capital** is £50,000 and 25% must be paid up. Before the company can trade or borrow money, a **Trading Certificate** has to be obtained from the **Registrar of Companies** (see Unit 20).'