

## Types of business

### Sole trader

This is the easiest and quickest way to get started. You alone are responsible for any profits and all losses, and there is no safety net.

#### Advantages

- Paperwork is kept to a minimum.
- You don't need to send accounts to the Registrar of Companies.
- There can be considerable tax advantages.
- Losses can be set off against other income you may have when you settle your tax affairs.

#### Disadvantages

- You are personally liable for any business debts and could lose personal assets.
- You pay less National Insurance but are not entitled to certain state benefits.
- It can be difficult to transfer ownership of the business.

### Partnership

The advantages and disadvantages of a partnership are similar to the sole trader. The main difference is that partners are responsible for debts 'jointly and severally', so if one partner fails to pay their share, the other partners have to pay this share in addition to their own. Before going into partnership, draw up a formal agreement that covers roles, financial details and other aspects of how the business is run so everyone knows their rights and responsibilities.

### Limited company

A limited company is a separate legal entity, with directors and shareholders. It can either be private, referred to as Ltd, or public, a PLC, although it's unusual for a new business to launch as a PLC. Find out how to register a limited company.

#### Advantages

- The company is liable for business debts; shareholders are only liable to lose the amount they paid for their shares.
- It is easier to spread the ownership of the company.
- Income tax is only paid on salaries and perks. The tax rate on company profits for small companies is lower than the usual rate of company or corporate taxation.
- It can have more credibility since records and accounts can be inspected at Companies House.
- It is ideal when someone wants to invest in the company but not work in it.

#### Disadvantages

- It takes time and money to comply with relevant legislation.
- Anyone can find out how well you're doing by examining your accounts.
- Other directors and shareholders have a say in how you run the business.
- You can't borrow money from the business.

This information sheet is one of a series compiled to help students and graduates that are interested in enterprise and innovation. The series is available from our website below.

**Need more help?** Please contact Marina Pickles, Student Enterprise Manager, [m.pickles@lboro.ac.uk](mailto:m.pickles@lboro.ac.uk)