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Types of Business

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There are a number of types of business and each has its own advantages and disadvantages.

1) Sole trader

The very simplest type of business is a sole trader which is where one person offers their services to paying clients, such as a mobile hairdresser or a plumber. The only administrative requirement a sole trader must comply with is to keep sufficient records to enable him to submit a tax return to HMRC on or before 31st January each year with details of their income and expenditure for the year ending on the 6th April of the previous year.



Advantages of a sole trader are:

- administration is very simple, therefore costs are minimised
- information about the business can be kept private
- all the profit belongs to the owner
- tax is paid several months after the money earned

A sole trader does face certain disadvantages:

- he only earns when he is working (not when on holiday or off sick)
- even if he can afford a holiday he may lose clients due to being away
- if the business fails he is personally liable for all debts
- he is reliant on his own expertise

2) Partnership

To minimise these disadvantages a trader may go into partnership with another person. There is very little extra admin to do apart from an additional partnership tax return but there are other considerations.



Advantages of a partnership:

- someone to cover in times of illness or holidays
- greater expertise can be available

Disadvantages of a partnership:

- partners have joint and several liability, which means all partners are personally liable for debts of the business, regardless of which partner incurred the debt

3) Limited Company

To guard against all of these dangers a limited company can be formed but this in turn has its drawbacks:

Advantages of a limited company:

- ownership can easily be shared between a number of people
- company is responsible for its own debts
- owners can only lose the money they have invested as share capital
- owners take reward on the form of dividends which can reduce the amount of tax they pay on their profits



Disadvantages of a limited company

- accounts must be prepared and presented in strict accordance with accounting standards
- accounts must be submitted to companies house and are therefore no longer private as any member of the public can see them for a fee
- there are legal costs in setting up a company