

By Sajid Khan



2 DIFFERENT TYPES OF BUSINESS



Introduction

- Hello, my name is Sajid Khan, and in this video, we will be discussing two different types of business structures in the UK. Specifically, they will be an examination of the advantages and disadvantages of Sole Traders and Private Limited Companies (Ltd) under UK law.



Business

- What is a Business?
- A business is an organisation that provides goods or services to consumers for profit (Atrill & McLaney, 2022). In the UK, businesses operate under various legal structures, each with different implications for taxation, liability, and management.
- Entrepreneurs must carefully choose the right structure based on their objectives and risk tolerance (Spicer, 2018).
- But here is something to remember—freedom in business means choices. You get to enjoy the benefits, but there are also risks to consider.



Sole Trader

- **Sole Trader**
- A sole trader who has to register with HMRC for tax purposes and lacks legal separation between personal and business assets, has the most simple business structure accessible in the UK . (GOV,2023),(Adams, 2021) .This means you control everything but also take on all risks. (Collins, 2019).
- **Advantage of a Sole Trader**
- **Full control** – Full ownership of their business lets sole traders make decisions free from the direction of directors or shareholders (Burns, 2018).
- **Disadvantages of a Sole Trader**
- **Unlimited liability** – Conversely, sole traders expose personal assets such as their property since they are personally liable for all company obligations (Dyson, 2020).
- Being a sole trader, building capital is challenging since most of them rely on personal savings, bank loans, or outside money from government subsidies (Stokes, Wilson & Mador, 2019).



Private Limited Company

- A **Private Limited Company (Ltd)** is a separate legal entity, meaning the business is legally separate from its owners.
- It can own property and sign contracts.
- If creditors have issues they sue the company, not the owner personally.
- The Companies Act 2006 assures legal function and thereby provides the legal basis for private limited firms in the UK by assuring openness and financial responsibility (UK Government, 2006).
- Within a company, there are different roles:
- **Members & Shareholders** – These are the owners of the company.
- **Directors** – These are the managers of the company.
- Before a company can operate, it must go through incorporation (Companies House 2023), which means:
- Registering with Companies House under the Companies Act 2006.
- Submitting a Memorandum of Association and an IN01 form.
- Paying a £71 fee for the Certificate of Incorporation.
- Creating Articles of Association – which outline the company's policies.
- **Shelf Companies:** Already formed and ready to be sold.



Private Limited Company

- Tailor Company: Everything has to fit the customer or else delays could result.
- **Advantages of a private limited company:**
 - Limited liability protects personal assets by allowing shareholders only accountability for the amount they invest (Eidenmüller, 2018),(Mayson, French & Ryan, 2022).
 - Private limited companies have the benefit of obtaining finance since they can offer shares to investors and more quickly attract outside capital than single stores (Gompers & Sahlman, 2019).
- **Disadvantages of a Private Limited Company:**
 - More complicated arrangement calls for financial reporting, business rule compliance, and registration (Gov, 2023).
 - Companies House (Companies Act 2006) publicly lists company facts, financial accounts, and director identities.
 - Although private limited companies have more opportunities for growth and risk protection, some company owners would prefer to be sole traders because of lower administrative costs and simpler taxation (Keane, 2021).
 - Private Limited companies have greater legal responsibilities like annual tax filings, financial reporting and public disclosure of company directors and shareholders (Morse, 2019).



Conclusion

- **Conclusion**
- In summary, sole traders have financial problems and unlimited responsibility but also simplicity and total control.
- Private limited companies demand greater administrative work and adherence to UK corporate laws even if they offer better access to capital and liability protection.
- The structure you decide upon will be influenced by the goals of your business, risk tolerance, and expansion aspirations. Small, low-risk businesses would best fit sole traders. Those wishing to grow and safeguard their firm will find a better choice in a limited liability company. "
- Thank you for watching, and I hope this helped you understand UK business structures!

References and Video

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