

## Guidance Sheet 2 – Business Structures

Choosing the right business structure is important. You will need to consider how big you wish to grow your business. You may start out as a sole trader, so you will be self-employed, but this does not stop you growing your business and changing your business structure at some point in the future. This guidance sheet considers 3 types of business structures:

1. Sole Trader / Self-employed
2. Partnership
3. Limited Company
4. Social Enterprise
5. Community Interest Company

### Sole Trader / Self-employed

As a sole trader you will be considered as self-employed. This means you are responsible for looking after all your business activity. This includes day-to-day work you undertake related to your business, and making sure you meet all legal requirements of a self-employed person. Things you will need to do and be aware of:

1. Register with HMRC (Her Majesty's Revenue & Customs) for self-assessment as soon as you start trading.
2. You will need to submit your annual tax return (self-assessment) on-line. You can do this yourself or you can appoint an agent e.g. bookkeeper or accountant to do this for you.
3. You will need to pay income tax and National Insurance Contributions (NIC) subject to thresholds for profits. Put your money away (budget for tax at end of year for tax bill)
4. You can employ other people. If you employ people you will need register with HMRC as an employer and operate a PAYE system.
5. You will be personally responsible for any debts and losses related to your business activity.
6. You can keep profits after all tax is paid.

### Further information

For full guidance and to register:

- Self-employment [Click here](#)

## Partnership

A Partnership can be two or more people coming together to run a business. All partners share responsibility for business activity and will pay tax to HMRC for their share of income generated by business. Things you will need to do and be aware of:

1. Choose a name for the business.
2. Choose a 'nominated partner.' The nominated partner will be responsible for managing the partnership record keeping and making tax returns to HMRC.
3. Register with HMRC
4. A partnership agreement document will outline the agreed rules of the partnership e.g. how profits from business activity are divided between partners, outlines liabilities and what happens if a partner wants to leave the partnership, or a new partner is introduced.
5. In a standard partnership **all** partners are fully responsible for all debts owed by the business.
6. All partners also need to send in their **own tax returns as individual people.**

### Further information

- Partnership [Click here](#)
- Tax returns for individual partners [Click here](#)

## Limited Company

For the context of Micro-enterprises a Limited Company is a company limited by shares. This means that the company:

1. Is legally separate from the people who run it.
2. The liability of the shareholders to creditors of the company are limited to any money partners have invested.
3. It has shares, and shareholders.
4. Share-holders are usually the investors but not necessarily responsible for the day-to-day operation of the business.
5. The Directors of the company are responsible for the legal operation of the business.
6. All individual employed by the Company pay taxes on a PAYE (pay as you earn basis).
7. If the company ceases to trade and is dissolved original money invested in the company may be lost.
8. It has separate finances from an individual's personal finances.
9. It can keep any profits made after paying corporation tax.

### Further information

For full guidance and to register:

– Limited Company [Click here](#)

## Social Enterprise

A social enterprise is not a legal model, it is a way a way of conducting business activity that has strong social and or, environmental impact as well as achieving commercial objectives.

1. Social enterprises are businesses that are traditional businesses, they aim to make a profit
2. It is what they do with their profits that sets them apart from main-stream businesses and their commitment to benefit for society.
3. Social Enterprises reinvest or donate profits to create positive social change by selling goods and services in the open market.
4. They create employment and reinvest their profits back into their business or the local community, tackling social problems, improve people's life chances, provide training and employment opportunities for those furthest from the job market, support communities and the environment.
5. Welsh Government definition of social enterprise:

*“A social enterprise is a business with social objectives. Their left-over profits are reinvested for that purpose in the business or the community, instead of raising profit for shareholders and owners.*

*“Social enterprises tackle a wide range of social and environmental issues. They compete in the marketplace like other businesses, using their business skills to achieve social aims. Like other businesses, social enterprises aim to sustain their business and make profits. The difference is what they do with the profits.”*

### Further information

|   |                            |
|---|----------------------------|
| Transforming Wales Through Social Enterprise 2020 | <a href="#">Click Here</a> |
| Social Enterprise UK                              | <a href="#">Click Here</a> |
| Social Firms Wales                                | <a href="#">Click Here</a> |
| UnLtd   | <a href="#">Click Here</a> |
| Wales Cooperative Centre                          | <a href="#">Click Here</a> |

## Community Interest Company (C.I.C.)

A Community Interest Company is a type of company introduced by the UK Government in 2005 under the Companies Act 2004. It was specifically designed legal structure for Social Enterprises that use profits and assets for societal good rather than benefiting private shareholders.

A Community Interest Company will need to have:

1. A 'Community Interest Statement'- This will explain what your business plans to do.
2. An asset lock. This is a legal promise stating that the Company's assets will only be used for social objectives, and will set a limit to the level of dividend it can pay to shareholders.
3. A constitution. This is the Company's governing document that will be submitted to the CIC Regulators Office when registering the company.
4. Approval from the Community Interest Company Regulator.

### Further information

Community Interest Company Regulators Office

[Click Here](#)

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