Sole Trader

A sole trader is a business that is owned and controlled by one person. The business is more commonly known as, a 'one man business'. The business is either owned by private individuals for example friends and family, this is called the private sector, or by the public for example the government, this is called the public sector. A sole trader is:

- The single owner of the business.
- The person who makes all the decision.
- The person who is responsible if anything should go wrong.

Many people are opting to set up businesses in the private sector such as sole traders, partnerships, franchises (the right to trade under an established name) and limited companies. It is also quite straightforward is set up. Four out of ten businesses tha t registered for Value Added Tax (VAT) are sole traders; this shows the vast amount of businesses setting up as sole traders.

Unfortunately many sole traders will not reach Vat threshold, which is the reason why even more businesses are sole traders. There are many jobs a sole trader can be involved in, some of which are in the trade, like plumbers, electricians, builders, locksmiths and door to door repairs man. Others are local shops for local people like bakers, butchers, news agents and off licenses, and of course the group of service providers like barbers, hairdressers and driving instructors.

To set up as a sole trader you need to have a few things first, you need to have:

- A licence/permission to trade in the chosen area
- Registered for the payment of VAT
- Knowledge of health and safety laws

The main aim of a sole trader is not the same as many other businesses. Where many businesses try to make profit, a sole trader tries to survive in the business world, they must also keep their trade alive to keep their inflow of income. A sole trader keeps all the profits he/she makes. They also have to pay income tax on the profits that the business is making.

The owner has to pay Vat if turnover is large enough and they reach the vat threshold. The owner for the business is completely responsible for all debts of the business up to the limits of his or her personal wealth. The responsibility for debts is called liability; in this case liability is unlimited.
This means that the owner can lose all their personal wealth and possession in order to pay off debts of their business.
The advantages of being a sole trader are that the owner:

- Makes all decisions.
- Keeps all profits.
- Has total control of the business.
- Can start with a little amount of capital (money).
- Can keep a simple management structure.
- Can keep the business flexible.
- Can keep business affairs private.

Partnerships

A partnership is a agreement between two or more people to take joint responsibility for the running of a business, to share in the profits and the risks. This means workload can be spread out and the risks of the business are shared.
In many cases, it is friend or family of the owner or an employee that will be taken on board as a partner.
In other words, a partnership means:

- Shared ownership.
- Shared decision making.
- Shared workload.

  Shared profit.
- Shared liability for debts.

A partnership is almost as easy to set up as a sole trader. If no formal agreement is drawn up, then the rules of the partnership are as laid down in the 1980 Partnership Act.
It is however, wise for the partners to draw up a special document, the *deed of partnership* Agreement, which outlines in detail:

How profits and losses are to be shared, if not equally.
How much money each partner is expected to put into the business.
How much money and what share of the profit each partner will be allowed to take out of the business.
The working arrangements of the partnership e.g. who does what in the business.
Arrangements for removing a partner or adding a partner to a business.
Arrangements for ending the partnership and the distribution of assets once the partnership is dissolved.

A partnership is easier to expand than a sole trader because of the involvement of more than one person, meaning more than one source of personal finance.
The business is owned by the partners equally (unless this is stated otherwise), there has to be a minimum of two partners and, in most cases, a maximum of twenty.
The partners share the control of the business equally unless the partnership agreement states otherwise. The is a certain amount of delegation in many partnerships, meaning that particular partners are responsible for particular jobs.
Partners are classed as self employed the same with sole traders. Due to the fac that they are classed as self-employed, they must pay national insurance contributions at the self employed rate, income tax on the profits of the business and VAT, if their turnover is high enough.
The partners have unlimited liability. Each partner is responsible for the entire debts of the partnership, whether they have caused the debt themselves or not.

The advantages of a partnership are:

- The partnership is easy to set up.

  The business can gain help from an experienced or qualified partner.
  The partners bring extra capital and expertise.
  The responsibility of running the firm is shared; this makes the running of the business less stressful.
  The finances are kept private (excluding information for tax purposes).

Division of labour means partners can specialise in what there best at.

The disadvantages of a partnership are:

The partnership has unlimited liablility.

The partnership has a lack of *continuity*, e.g. if a partner dies than the partnership is automatically dissolved.

Partners can take decisions without consulting the other partners.

Even with the extra source of finance, there is still a lack of capital.

Disagreements between the partners.

Code breakers!

Sole proprietor: a one person business, the same as a sole trader or sole owner

Unlimited liability: responsibility for the debts of the business extends to a person's personal wealth.

Specialisation: concentrating on a particular task or job, being expert at it.

Division of labour: splitting up the labour force into different specialisms so that each carries out his or her own specialism with greater efficiency.

VAT threshold: the level of turnover at which the firm has to start paying value added tax.

Delegation: giving jobs to other people, in a partnership this means that people use their skills where they will have the most effect.

Deed of Partnership: a legal document that outlines how responsibilities, profits and workload are to be shared.

Lack of continuity: because the partners make up the partnership, if one of them leaves, then the partnership is dissolved. The Partnership cannot be passed on or sold.