

## The Legal Status of a Business

When setting up my business there are many possibilities of what the business's legal status could be.

One of the possibilities is to become a **sole trader**. Being a sole trader has many advantages:

- The main advantage is that you have complete control of your business. This means that you can run the business just the way you want.
- Another advantage is that this type of business is very easy to set up. It requires no long complicated documents to fill in so it is relatively easy to set up.
- An advantage that would appeal to most sole proprietors is the fact that the sole trader gets to keep all of the profits that the business makes. This would appeal to most people, as the reason that people go into business is to try and make money.

There are many disadvantages that would put people off being a sole proprietor:

- The main disadvantage of being a sole proprietor is **Unlimited Liability**. Unlimited Liability. This means that the owner of the business is personally responsible for all of the debts and losses of the business. If the debts cannot be paid then the owner is declared bankrupt which means that his business will be sold and the money raised will be used to pay the debts. If the owner still has not managed to pay off the debts of the business then his personal possessions can be sold off to pay for the debts of the business. The personal possessions may include the house and car of a sole trader.
- Another disadvantage of being a sole trader is that it is sometimes difficult to raise the capital needed to expand or set up the business.
- Because there is only one owner that owns the business, it is often hard to take holidays or take sick leave. This is a disadvantage because the sole trader is solely responsible for the running of the business. This can cause stress and can be off-putting for people wanting to start up a business as a sole trader.

## Partnerships

Another possibility of a legal status to opt for is a **partnership**. A partnership has different advantages and disadvantages than a sole trader.

- One of the main advantages of being in a partnership is the fact that you do not have to make all of the decisions yourself, you can share the responsibility with the other partner(s). This is a good advantage because it means that the owner of the business is not taking all of the stress of the business as it is being shared with the other partner.
- Another advantage with working in a partnership also means that it is easier to raise the capital needed to set up a business. People who are setting up businesses as a partnership often find it easier to raise the capital needed to fund and set up their business.
- Another advantage to being in a partnership is the fact that each partner can specialise in a different area of work and can bring more new ideas to the business. This can help make the business more successful because it would help to bring in profits.

## Disadvantages

- The main disadvantage of being in a partnership is **Unlimited Liability**. This means that the owner(s) of the business is personally responsible for all of the debts and losses of the business. If the debts cannot be paid then the owner(s) is declared bankrupt which means that his business will be sold and the money raised will be used to pay the debts. If the owner still has not managed to pay off the debts of the business then his personal possessions can be sold off to pay for the debts of the business. The personal possessions may include the house and car of the partners.
- Another disadvantage of being in a partnership is the fact that partners could fall out about sharing the profits, the responsibilities of the partners and partners not pulling his/her weight. This is a disadvantage because if the partners fall out, inevitably the business would suffer and this could eventually lead to bankruptcy or the business failing.

## **The Limited Company**

A public limited company has a more complicated set up than a partnership and a sole trader but it has different benefits. In the types of businesses that I have described the owners are actively involved in the running of the business (except for sleeping partners). In other businesses I have described ownership and work are combined.

When setting up a limited company ownership and work are separated. In this type of business the shareholders are the owners of the business. However the business is ran by directors and paid employees. When setting up a limited company there are two options you can choose. You could set up a **Private Limited Company** (Ltd Co) or you could set up a **Public Limited Company** (Plc)

### **Advantages of the Private Limited Company**

One of the main advantages of setting up a limited company is the fact that there is less risk for the owners who have limited liability. If the company goes into liquidation and cannot pay its debts the owners may lose all of the money that they put into the company but their personal possessions are safe.

Another advantage is that it is easy to raise the capital to set up the business because the founders of the business can invite many people to buy shares in the business. Although buying shares as an investment carries some risk if the business fails people are willing to buy them because their personal possessions are safe and the dividend (their share of the company profits) can be good.

Another advantage for setting up a Private Limited company is the fact that the founders of the companies can keep control of the business by buying the majority of the shares.

### **Disadvantages of setting up a Private Limited Company**

The main disadvantage of setting up a Private Limited Company is the fact that it is more complicated to set up. This is because the founders of the business have to fill in the Articles of Association and the Memorandum of association.

Another disadvantage for setting up a Private Limited Company is it is more expensive to set up. This is mainly because the founders of the business will need to employ a solicitor to register the company. Also, the company's affairs will be less private than either the sole proprietor or partnership. This is because in return for having limited liability status, their accounts have to be sent to the companies registration office every year, where other people may see them.

## **Advantages of the Public Limited Company**

One of the main advantages of setting up a limited company is the fact that there is less risk for the owners who have limited liability. If the company goes into liquidation and cannot pay its debts the owners may lose all of the money that they put into the company but their personal possessions are safe.

Another advantage is that it is easy to raise the capital to set up the business because the founders of the business can invite many people to buy shares in the business. Although buying shares as an investment carries some risk if the business fails people are willing to buy them because their personal possessions are safe and the dividend (their share of the company profits) can be good.

Another advantage for setting up a Public Limited company is the fact that the founders of the companies can keep control of the business by buying the majority of the shares.

## **Disadvantages of the Public Limited Company**

The main disadvantage of running a public limited company is the fact that the business can sometimes become too big to run efficiently.

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