# SHOULD IT BE SOLE TRADER, PARTNERSHIP OR LTD COMPANY?

**Mark Shields** explains how you can trade as a holistic therapist, and provides tips on the best way to set up your practice

WHEN setting up your practice there are some very important considerations and decisions to be made. One of the first business decisions you will need to make is how you intend to trade. There are a number of options, and each has different advantages and disadvantages, and levels of complexity.

Let's look at the three main ways to trade in turn so you can clearly see the benefits and potential set backs of each…

## 1 SOLE TRADER

**The Pros**

- Being a sole trader is the simplest way to run a business – it does not involve paying any registration fees. Accounting is straightforward and you get to keep all the profits. All you need to do is inform the Inland Revenue that you are trading.
- You make all the decisions on how to manage your business.
- You must keep records showing your business income and expenses.
- Your profits are taxed as income.
- You need to register for Self Assessment and complete a tax return each year. You can do this yourself, and don't have to employ an accountant.

**The Cons**

- As a sole trader, you are personally responsible for any debts run up by your business. This means your home or other assets may be at risk if your business runs into trouble.

> BEING A SOLE TRADER IS THE SIMPLEST WAY TO RUN A BUSINESS

## 2 LIMITED COMPANIES

There are broadly two types of private company:

- private limited company
- private unlimited company

A private limited company may be limited by shares or by guarantee. A company is an unlimited company if there is no limit on the liability of its members.

**The Pros**

- Your own personal liability is limited to the money you have put in and the value of the company.
- Because you have set up a limited company you effectively work for the company as an employee, which vastly reduces any personal risk or potential loss.
- You are always taken seriously by clients and by business partners.
- There are also potential tax advantages if you set up in this way compared to being a sole trader, e.g. Income can be taken as dividends, which is completely free from any national insurance liability or payments.

**The Cons**

- There needs to be a formal structure in place with an appointed accountant and more administration and timescales to be adhered to. You can be fined if the Inland Revenue deadlines aren't met.

## 3 PARTNERSHIPS

There are three types of partnership:

- ordinary partnership
- limited partnership
- limited liability partnership (LLP)

All three types of partnership have the following features in common:

- Two or more persons – i.e. the partners – share the risks, costs and responsibilities of being in business.
- The profits and gains of the partnership are shared among the partners, unless the partnership agreement states otherwise.
- Each partner is personally responsible for paying tax on their share of the profits and gains, and for their National Insurance contributions.
- Each partner must register for Self Assessment with HM Revenue & Customs (HMRC) and complete an annual tax return.

**FINAL TIPS**

It is common for a new practitioner to setup as a sole trader to begin with. Then, after trading for a while sole traders see the benefits of changing the setup to that of a limited company. It is easy to go from a sole trader to a limited company, however not so easy to do the reverse. If you opt for a partnership, then it's a good idea to draw-up a written agreement between the partners. Good luck ■

**Recommended Reading:**

businesslink.gov.uk
companieshouse.gov.uk
holisticinsurance.co.uk
0845222236

'Working for yourself: An Entrepreneur's Guide to the Basics' by Jonathan Reuvid