

6

Types of business

This may well be an area of business law that you will be comfortable with. If so, good. Any student who's taken A level or equivalent in either Business Studies or Economics will have covered the main forms of business formation before. The difference is that here we will not only cover the main types of business, but also the formation and legal implications of each of these.

It's unfortunately true that unless you're aware of these legal implications you can get yourself into a whole lot of trouble with the law. You can, in some cases, lose just about everything you own. The worst-case scenario is that if you don't know what you're doing, you could end up doing a stretch at Her Majesty's Pleasure in a (with luck) open prison.

Self-employment/sole traders

The obvious place to start here is to look at working for yourself. The self-employed type is the oldest and easiest way for you to start a business. It's quick and cheap to set up and requires little paperwork at the start. The income tax and VAT (value added tax) authorities have now been combined into one authority – HM Revenue and Customs (HMRC). Officially you have to inform the HMRC what you're doing, but in fact very few people do this at first, but wait for the tax people to catch up with them. Obviously, I can't recommend you doing this yourself but let's just say an awful lot of people do. Depending upon your estimated business turnover, you may have to register for VAT (Value Added Tax) at HMRC, but currently your business turnover has to be more than £85,000 before you have to bother with this. It's doubtful if you are going to have to worry about this in your first-year trading as a self-employed person

According to the Office of National Statistics, at the time of writing there are 4.93 million self-employed people in the UK. I'm not going to argue with the Office of National Statistics, but the figure for self-employed is a very difficult thing to measure – people dodge in and out of being self-employed on a

regular basis. This is because it's so easy to do. One week you may be working for yourself as a bricklayer, and the next week a builder may offer you a job working for his building firm. Now you are no longer working for yourself but part of the 'employed' section of the National Statistics. The total figure for the self-employed then can't be much more than an estimation. Even so it's a pretty big figure representing around 15% of the total working population.

The sole trader form of business organisation is popular for several reasons. You often don't need very much by way of capital (money) to start your own business and, as said above, there is little formal setting up needed. Self-employment has traditionally formed the basis of many occupations such as bricklaying, plumbing and hairdressing. Market traders and small 'jobbing' builders and handymen also tend to be self-employed, as are most window cleaners. Many of these occupations are not always carried out by people working for themselves but they often are.

If you are currently fed up with what you're doing, you could set up as a sole trader tomorrow morning. You could, for example, get a pitch at a local market for very small outlay per day or week. The difficulty is choosing something to sell on your stall. Existing market traders are very protective of their own businesses and not too keen about the idea of someone else setting up and selling the same goods as themselves.

So, what are the main attractions of this form of business organisation?

- Low cost of setting up;
- Being your own boss and making all the decisions yourself;
- Keeping all the profit (assuming you make a profit);
- Cheap and easy;
- Flexibility;
- Being your own boss – you can employ workers if you want to but you have to pay them of course;
- Privacy – you don't have to publish your accounts so competitors can't see what you're doing.

What may put you off?

- As a self-employed person you won't have a contract of employment so you can't expect the benefits of holiday pay or employers sick pay.
- Difficulty of raising capital if you want to expand. Bank managers tend not to like the self-employed.

- ❑ Usually you have to put in extremely long hours as you generally not only have to organise your business yourself but also be your own administrator, accountant and marketing person etc. etc.
- ❑ You will have to pay twice for any holidays. First the cost of the holiday itself, and second the loss of earnings while you're relaxing in Tenerife for a month each year. Depending on the level of competition, you might also be very worried that you may have lost all your customers by the time you get back.
- ❑ Also, what's going to happen if you get ill and can't work?
- ❑ You are responsible for calculating and paying your own income tax and possibly Value Added Tax (VAT). This means that you're going to have to deal directly with HM Revenue and Customs. The people at HMRC do not take prisoners. Particularly with the self-employed. The tax authorities are going to be much happier when (and if) we move to a completely cashless economy.
- ❑ Personal liability – this is the really big one. Should your business run into trouble then you are seriously in danger of losing any assets you may own: this includes your house, your car, your furniture and everything else you used to call your own. Interestingly, if you go bankrupt, as a self-employed person, you are allowed to keep the tools of your trade. So, a plumber, for example, is able to keep any spanners and wrenches and so on which would be needed to carry on as a plumber. Presumably a private sector doctor would be allowed to keep his or her stethoscope and needles needed to keep on practicing. Would you take your old granny to a bankrupt doctor go to get her course of vitamin B12 jabs?

I think you get the point. Working for yourself is great when things are going well but can be really bad when your business takes a downturn. Unfortunately, unless you have someone to leave your business to when you die, your business also dies along with you. On a happier note and having said all this, lots of people have operated in this way for many years without any trouble. Don't let me put you off but just keep in mind the danger. The real danger, just to remind you, is that you have complete personal financial liability should things go wrong!