

Choose a legal format for your business

Overview

This standard is for entrepreneurs who need to choose a legal format for their business. It is important to choose the most appropriate trading status for your business in line with the law. If your business fails, then the legal format may affect your rights and responsibilities. There are several options available, and you need to choose the legal format that best suits your specific business requirements. Choosing the legal format for your enterprise involves finding out about legal options for setting up and running a business, comparing legal format options and selecting an option that is best for your business.

You might do this if you need to:

1.
set up a new business or social enterprise;
2.
review the current structure of your business or social enterprise;
3.
take over another business or social enterprise in its early years.

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Performance criteria

You must be able to:

1. source advice and information relating to the variety of legal structure options for your business
2. research the legal format options best suited for your business
3. identify the potential legal structures for your business
4. compare the advantages and disadvantages of each legal format
5. consult with professional experts on the legal format, where required
6. identify the required legal documents to complete for the chosen business format
7. determine who makes the management decisions in each legal format
8. research the financial options and financial liabilities depending on legal format
9. identify the amounts of taxes to pay and the records to keep
10. find out about legal agreements and seek additional advice about what they mean for you and your business aims
11. consider the views of your backers when you choose a trading option
12. analyse how the trading options will affect your customers, suppliers, stakeholders and the future activities of your business
13. make sure that the way you set up your business meets all legal requirements

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Knowledge and understanding

You need to know and understand:

Legal format

1. the types of legal structures available for your business, such as sole trader, partnership, Limited Liability Partnership (LLP), limited company (Ltd), Private Limited Company (PLC), Right-to-manage (RTM) company, Community Interest Company (CIC)
2. the type of documentation required for each format of the business
3. the authorities you must notify about your business
4. the tax and National Insurance requirements and how you pay them
5. the effect different options will have on your business in terms of customers and suppliers
6. who makes the management decisions in your business
7. the types of records and accounts to keep
8. the financial liabilities of different legal formats
9. the type of trading status for meeting the commercial and other needs of your business
10. the effect of different options on your tax position and the amounts of taxes to pay
11. the financial risks or implications involved

Law and regulations

12. the liabilities you and your business will have including insurances, planning permission, local regulations and byelaws, health and safety regulations, fire regulations, trading standards rules, copyright and patent rules
13. the aspects of national and local law and regulations apply to all businesses, including your own

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Information and advice

14. the sources of information on law and regulations relating to variety of legal structures for your business

15. why it is important to use technical and professional advice to find out about laws and regulations

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