

DON'T HESITATE INCORPORATE

Every new business should consider registration because of the benefits which it provides. In brief these are:

Benefits of the limited company

◆ Protection of personal assets

Registering your business puts a block between what the company owns and what you own personally. Only where you act as personal guarantor or where you act dishonestly or fraudulently can your personal assets be attacked. Consider the following three scenarios:

- ◆ Small business with a small number of clients. You lose your best client who may make up the majority of your revenue. The business suffers and your own funds will have to bail you out. This would not happen if you were registered.
- ◆ There is a problem with a contract and your client sues. Without registration the client sues you personally. Conversely, subject to there being no malpractice by the directors the personal assets of the owners/managers are protected.
- ◆ You and a friend set up business together. There is a fall out. Division of spoils is messy. If registered the shareholding determines the entitlement and the personal assets are kept out of it.

◆ No audit

The audit threshold has been further increased which means that unless the company operates at a turnover in excess of £6.5m and may not require an audit.

◆ Financial

See below for just a couple of examples of how operating as a registered company can give you greater return.

◆ Succession

Without registering your business the business does not continue after you have gone to more peaceful climes. Registering your company means that even where the directors and shareholders change, the company still exists. From the point of view of longevity the registered company provides a structure where there is continuity of the business for next generations.

Benefits of a Limited Company																																	
<p>EXAMPLE ONE Sole Trader (unincorporated) 2010/11</p> <table> <tr><td>Profits</td><td>£20,000</td></tr> <tr><td>Class 2 NIC</td><td>£125</td></tr> <tr><td>Class 4 NIC</td><td>£1,143</td></tr> <tr><td>Income Tax</td><td>£2,705</td></tr> <tr><td>Net income</td><td>£16,027</td></tr> </table>	Profits	£20,000	Class 2 NIC	£125	Class 4 NIC	£1,143	Income Tax	£2,705	Net income	£16,027	<p>EXAMPLE TWO Sole Trader (unincorporated) 2010/11</p> <table> <tr><td>Profits</td><td>£50,000</td></tr> <tr><td>Class 2 NIC</td><td>£125</td></tr> <tr><td>Class 4 NIC</td><td>£3,114</td></tr> <tr><td>Tax costs</td><td>£9,930</td></tr> <tr><td>Net income</td><td>£36,831</td></tr> </table>	Profits	£50,000	Class 2 NIC	£125	Class 4 NIC	£3,114	Tax costs	£9,930	Net income	£36,831												
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◆ Borrowing

An unincorporated business cannot utilise the floating charge scenario which is a form of borrowing over all the business assets. If registered this facility is available. In addition, institutions are less inclined to lend to unincorporated businesses and prefer the registered vehicle.

◆ Name = £s - Name protection

Do not underestimate the value of the business name. If you are successful then your name will stand for that success and will carry value. If registered that value can be shown in the balance sheet as an intangible asset and no competitor under the law can register with the same name as yours.

◆ Compliance

Every business must keep accounts. Good housekeeping means measured cashflow and resource management. Registering the company simply obliges management to comply with this ethos and to make public some of the compliance e.g. filing of accounts.

When setting up in business consideration should be given to the benefits of registration. Appropriate advice should be taken on the financial aspects of the new business as each business set up is exclusive and different from the rest.