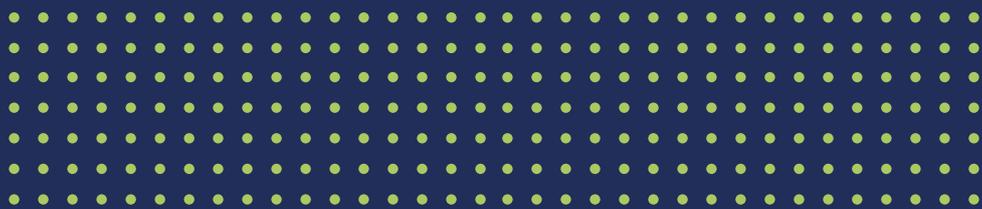




INNOVATIVE ENTREPRENEURSHIP



Company Structures



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Company Structures

This factsheet looks the main legal structures for a business..

For anyone starting a business they need to decide which legal structure it will have. To do this they need to consider several issues including whether they want to be personally liable for any future business debts, and the potential red tape and tax implications of their chosen structure.

It is always prudent to seek professional advice from solicitors and accountants that will help ensure you choose the correct legal structure.

Below are the main types of business structure;

SOLE TRADER

Sole traders (sometimes referred to as a sole proprietors or sole operators) are treated by the Tax Office as self-employed for tax purposes and retain all their business profits after tax. A sole trader is personally liable for the debts of the business, which means that their home and other personal assets may be at risk if they are unable to pay the business's debts as they fall due. Sole traders must register with the Tax Office as a self-employed person. They must complete an annual self-assessment return and pay income tax.

Advantages of operating as a sole trader

- Sole traders have sole control of their business, allowing them to make business decisions quickly and easily.
- All profits, after tax, belong to the business owner.
- It is relatively straightforward to start up or cease trading as a sole trader.
- Generally, overhead costs are easy to keep under control because sole traders typically start up on a small scale, often trading from a home base.
- Sole traders don't need to have their business accounts audited or made public, which saves time and money.
- Some people find it personally satisfying to work for themselves. Sole traders can put all their enthusiasm into the business and make the most of their own ideas.





Disadvantages of operating as a sole trader

- Sole traders are personally responsible for all debts and liabilities that their business incurs. This means that both their business and personal possessions could be at risk if the venture runs into trouble.
- They may have to work very long or unpredictable hours.
- Sole traders who suffer an injury or illness may not receive an income during the time they cannot work.
- Sole traders often experience greater difficulty raising money for their business than limited companies. For example, it can be harder for sole traders to secure bank loans and they cannot sell a share or shares to raise funds to invest in the business.
- Sole traders generally start up using their own savings, loans secured against personal assets, or with money borrowed from friends and family.
- Business growth may be restricted by a sole trader's limited knowledge or skills.

PARTNERSHIP

A Partnership is when two or more people are 'trading in common with a view to profit' and is the format normally chosen for a business that will be owned by two or more sole traders. This kind of partnership has to be registered with Companies House - <http://rkmmmd.gov.ct.tr/>. Each business partner has unlimited liability for the debts of the business. Partners are 'jointly and severally' liable, so each can be held responsible for transactions or contracts entered into by any of the others.

Partners are treated by the Tax Office as self-employed for tax purposes in the same way as sole traders, and they retain and share all their business profits after tax. They do not all have to be individuals, as a private limited company is treated in law as a 'legal person' that can also enter into partnership.

It is best practice, to have a formal partnership agreement drawn up by a solicitor before starting to trade. This partnership agreement will clarify each partner's legal position and provides a framework for dealing with any problems that may potentially arise.





PRIVATE LIMITED COMPANY

A private limited company has a separate legal identity to that of its owners, unlike a sole trader or a partnership where there is no distinction. This means that the owners of a company, who are called 'members', benefit from limited liability, and the company itself can own property and other assets, as well as sue and be sued.

A private limited company must be registered with Companies House - <http://rkcmd.gov.ct.tr/> and registered with the Tax Office <http://www.vergi.gov.ct.tr/>. It can be limited by shares, which means that the members' liability is limited to the money they have invested buying those shares in the business, or by guarantee, which means that the members' liability is limited to the amount they have agreed to contribute to the company's assets if the company is wound up.

Members of a company limited by shares are known as shareholders. Shareholders buy shares issued by the company when it is created and may buy further shares at a later date. The money for the purchase of the shares is reinvested back into the company. Shares in private limited companies cannot be publicly traded – i.e. on the Stock Exchange

Directors, who may or may not be shareholders, are appointed to manage and direct the company. Directors must be aged 16 or over but there is no maximum age limit. A person who is an undischarged bankrupt cannot legally be a company director. Directors are salaried employees of the company and must pay relevant Pay As You Earn tax and National Insurance.

In North Cyprus a minimum of two people are required as shareholders to form a limited company. To be a Director it can be one or many.

It is not possible to register a company with the same name as another company (or one that is too similar). To check a company name, you can apply personally or get an accountant or solicitor to do it for you. More information can be found at <http://rkcmd.gov.ct.tr/FORMLAR>

It is also important to note that certain words can only be used with permission from a relevant authority, and names that may cause offence are not permitted. This can also be checked at <http://rkcmd.gov.ct.tr/FORMLAR>.

