

**FACT SHEET**

# Complying with the law – Part 1

## Quick Summary

- Starting a business isn't simply a case of starting to sell/trade the next day. You need to make sure your new business is complying with the law – which means going through the correct channels and procedures.
- Naming your business is an extremely important task – and you need to get it right. Brand awareness is so important, and if you select the wrong branding, you will have a harder time promoting and marketing your business.
- There are different types of businesses, and each one has a different legal structure. Each structure has different legal requirements that you – as the owner – will have to adhere to. Therefore, it is crucial you understand which legal structure applies to your business.



## Introduction

That moment you decide to start a new business is an exciting moment! To build something from the ground up is something remarkable, and when you look back on your humble beginnings, you'll most likely get an overwhelming sense of pride.

However, before you get over excited and run off to start your new business, you need to carefully think through your business and make sure it complies with the law fully. Your business could be the best thing ever, but if it is breaking the law – it isn't going to end well!

You'll need to think about choosing the right legal structure to suit your particular circumstances and ambitions as well as registering with HM Revenue and Customs. Your business idea might require a special license or you may need help from Trading Standards. We have provided an overview of the most common legal issues here and details of contacts locally where support is available.

There are 4 parts to this fact sheet. Each contains vital information for creating a business, so please take the time to read each one to make sure you get all the information you need to give your business the best possible start it can.



## Naming your business

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Think about some popular brand names. Nike, Starbucks, ASOS. They have built up their brand awareness in such a way that reflects the businesses aims and beliefs to the point where if someone said 'Nike' you would probably instantly think of things like – sport, performance, and of course - shoes.

Corporate identity (image) is everything! - It is a vital sales tool - all of your marcomms (marketing communications) will need to show branding of some type.

It is essential you choose a brand that sets itself apart from the competition. Create a brand too similar to an existing brand, you might be accused of plagiarism OR your customers might get confused between the two brands and you'll end up in potential lost sales.

- Make sure it is not already in use by a competitor or well known to another product/service.
- Make sure it suits the product/service - find and use the Unique Selling Point (USP) of your product.
- Make sure it suits the market - the target customer age, gender, profession, income.
- Make it memorable so it stands out from the crowd.
- Ensure it doesn't breach any legislation - see Companies house for further guidance.

### If applicable...

If applicable, also consider the suitability to premises/location - check planning permissions with your district council. If you are unsure which district your business is in, you can use the Local Authority Districts look up table in the Contacts section.

This research can also help with decisions about marketing strategy, budget and sales targets. See how successful local, national and international brands are promoted, by using the following methods:

- Searching the internet
- Market reports
- Newspapers
- Magazines
- Business directories

Websites containing examples of corporate identity and image databases can also help with inspiration and production. Try different colours, typefaces, styles and layouts for business cards, flyers, labelling, shop front facias etc. This will ensure the branding design can be adapted to suit every required situation. If it can't be adapted easily, then you're simply handicapping your business before it's even begun!

Furthermore, try not to settle on the first design you come across that you like. Naming your business is a crucial task and needs to be done right. Take some time to experiment with several design ideas so you can make an informed decision and pick the best design possible.

Take your designs and get feedback from your friends, family, potential customers or business people in your target market. Outside perspectives are extremely helpful in brand development! See Events for any available workshops to help with the process.

# Legal structure of your business

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There are many ways of owning a business; the first three methods listed below are the most common.

## 1. Sole Trader (Common)

Unlike other business formats, sole traders (and partnerships) can start trading straight away, although certain types of businesses may need a licence to trade. If trading under a name other than that of the owner, you must display the name and address of the owner at the premises and on the stationery.

**Setting up:** Register as self-employed.

**Liability:** If the business fails, then the owner is fully responsible for all the business' debts.

**Management:** The owner's word is final.

**Finance:** More often than not, the owner's personal money.

**Profits:** All profits belong to the owner.

**Taxes etc.:** Self employed status. Even if the owner doesn't draw on his profits they are still taxed. Losses can be offset against tax on other income.

**Continuity:** If the owner dies or retires, the business may collapse.

## 2. Partnership (Common)

Unlike other business formats, partnerships (and sole traders) can start trading straight away, although certain types of businesses may need a licence to trade. If trading under a name other than that of the owners, you must display names of the owners and addresses for each.

**Setting up:** Partners need to register as self-employed. It is wise to seek the advice of a solicitor and form a 'deed of partnership'.

**Liability:** If the business fails, then the owners are fully responsible for all the business' debts.

**Management:** The partners share responsibility for controlling the business.

**Finance:** More often than not, the partners' personal money.

**Profits:** All profits are shared between the partners (as agreed within the 'deed of partnership').

**Taxes etc.:** Self employed status. Even if the partners don't draw on the profits they are still taxed. Losses can be offset against tax on other income.

**Continuity:** The partnership is dissolved if one of the partners dies, resigns, or becomes bankrupt.

## 3. Limited Company (Common)

Unlike sole traders and partnerships, trading cannot start straight away for limited companies. Certain types of licences may still be required. The business name must include the word Limited or Ltd at the end. Also see 4 - Limited Liability Company

**Setting up:** Register with the Registrar of Companies at Companies House.

**Liability:** The shareholders' (members') personal assets are protected if the business fails. You can only lose what you have put into the business (limited liability).

**Management:** The business is controlled by the board of directors. They are each held personally responsible for its management and must act in the company's best interests.

**Finance:** Capital is raised by the sale of shares, although not to the general public.

**Profits:** Dividends are paid to the shareholders.

**Taxes etc.:** Employee status. The Directors are employed by the company through the PAYE tax system.

**Continuity:** The company is a legal entity in its own right and can be sold, or buy shares in other companies. It has 'perpetual existence'. An accountant would be happy to give further advice on these matters.

A public limited company (PLC) is basically the same as a private limited company (LTD), in that there is limited liability. However, there are some important differences to be aware of. The key difference between public and private companies is that a public company may offer to sell its shares to the public. Before it can start in business or borrow money, a public company must satisfy Companies House that at least £50,000 worth of shares have been issued and that each share has been paid up to at least a quarter of its face value. It will then receive an authorization to commence business and borrow.

A useful tool to help with the decision to set up is <https://www.gov.uk/running-a-limited-company>

## 4. Limited Liability Company

A limited liability company (LLP) is an alternative corporate business vehicle that gives the benefits of limited liability but allows its members the flexibility of organising their internal structure as a traditional partnership.

Any new or existing firm of two or more persons will be able to incorporate as an LLP in England, Scotland or Wales. It is not possible to convert a company to an LLP or vice versa. LLP's are not available to Charities as there must be a view to profit.

LLP's are similar to companies in the respect that they will be required to provide financial information, including the filing of annual accounts. They must also notify any changes to: membership; members' names, addresses and the registered office.

**Setting up:** Register with Companies House, the method is similar to registering a company.

**Liability:** The LLP will be a separate legal entity and while the LLP itself will be liable for the full extent of its assets, the liability of the members will be limited. Under certain circumstances, however, claims for economic loss could be made against individual members who have been negligent. Any such claim would be a civil action outside the contract as the party would have contracted with the LLP.

**Management:** The business is controlled by the 'designated members' (who have a similar responsibility to a directors / secretary of a Ltd Company) and the 'members'.

**Finance:** Capital is provided by the members, LLP's are similar to 'Partnerships' or 'Sole Traders' in this respect.

**Profits:** Incomes derived by the members will be closer to that of a 'Partnership' than to the dividends paid by companies.

**Taxes etc.:** An LLP will be taxed as a 'Partnership'. The members will provide working capital and share any profits.

**Continuity:** The LLP is a legal entity in its own right.

## 5. Franchise

The term 'franchising' covers a variety of arrangements in which the owner of a product, process, service or even just a name (in the terms of a celebrity) allows someone else to use it in exchange for some payment.

It is a method of starting a business which minimises risk by using or emulating a tried and tested 'business formula'. A contract is forged between 'the franchisor' - (the organisation that supplies the franchise) and 'the franchisee' - (the party that purchases the franchise).

The franchise package supplies most of the things that one needs to launch the business successfully: - training, license to use franchise name, customer base, supplies and raw materials, equipment, promotional material etc. In addition to a set-up fee, the franchisor may charge an ongoing fee based on the percentage of sales or profits of the business.

The key point is that it should be a proven business system that is offered - not merely the right to sell a product or service.

[Click here to view the website of a franchise expert in Lincolnshire.](#)

## 6. Workers Co-operative

A workers co-operative is a company which is owned by its employees. See the LCDA page for assistance with setting up this type of enterprise.

## 7. Social Enterprise

A social enterprise is an organisation that applies business strategies to achieving philanthropic goals. Social enterprises can be structured as a for-profit or non-profit. See LCDA and SEEM pages for assistance with this third sector type of business.

Many commercial enterprises would consider themselves to have social objectives, but commitment to these objectives is fundamentally motivated by the perception that such commitment will ultimately make the enterprise more financially valuable. Social enterprises differ in that, inversely, they do not aim to offer any benefit to their investors, except where they believe that doing so will ultimately further their capacity to realise their philanthropic goals.

## 8. Charities

A charitable organisation is a type of non-profit organisation (NPO). It differs from other types of NPOs in that it centres on philanthropic goals (e.g. charitable, educational, religious, or other activities serving the public interest or common good).

For more information visit the Charity Commission.

If you are unsure which district your business is in, you can use the Local Authority Districts look up table in the Contacts section.

Continue reading Part 2 of this factsheet where we explore registering as self employed and health and safety.



# Need more support?

## Get in touch!

For more information visit [www.businesslincolnshire.com](http://www.businesslincolnshire.com) where you can request support from one of our advisers by filling in the online contact form.

