

SAB ADVISORY

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Common Types of Farm Business Structure

Businesses can trade as...



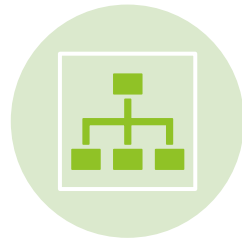
Sole Trader - This is known for being the simplest form of business. Here one self-employed individual is trading either under a business name or their own name.



Partnership - Here two or more people create a business together. The responsibilities (management and profits) for this business will be shared between all partners. Partners are also jointly and severally liable for all debts in the partnership. A partnership agreement document should be created to set out the terms of the partnership.



Limited Liability Partnership - This business style allows for a partnership structure where each partner's liabilities are limited to the amount they put into the business. Partners can be individuals or companies. This is still an uncommon structure in farming.



Limited Company - A limited company is a separate legal entity with its own rights and obligations. The company is owned by its shareholders and managed by its directors. Company money and affairs are separate from personal monies. Limited Company structures also limit the liability of directors and shareholders giving more protections than sole trader or partnership structures.

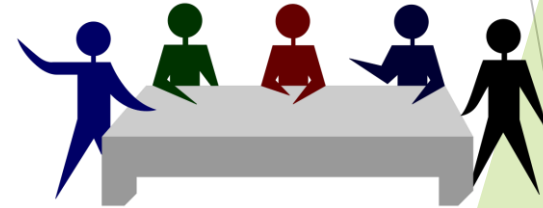
The number of people that each type of business can contain

Sole Trader- Despite only one individual controlling and running their own business; this type of business can employ any number of staff members within the business. The term Sole Trader refers only to the business, and not to the number of employees.

Partnership- To form a partnership, there is a need for two or more people to operate in business together. There is no limit to the number of employees in the business.

Limited Liability Partnership- Like a Partnership style of business, this is run by two or more people (whether that be either individuals or limited companies). Also there is no restriction on the number of partners allowed.

Limited Company- The ownership of a limited company is divided up into equal parts called shares. Whoever owns one or more of these shares are referred to as shareholder. There can be one or many shareholders. The business is run by a director/directors who can also be shareholders.



Legal Liabilities and Duties



Sole Trader- As a Sole Trader, this means the owner is solely responsible for the business. Sole traders will be personally liable for any debts created from their business. Any losses made by the business must be paid from the owners own pocket or assets (business or personal) may be repossessed if creditors are not paid. The liability of sole traders is unlimited.

Partnership- Bringing together more than one person, a partnership operates in a similar fashion to a sole trader, but adds multiple capital accounts and profit sharing. Any liabilities are the responsibility of all partners in the business and personal assets are at risk. A partnership agreement drawn up by a professional should be in place.

Limited Liability Partnership- An LLP operates between a partnership and a limited company. Registration at Companies House is required as are submitting accounts, and annual returns. Partners can be individuals or companies. Personal assets are protected against creditor claims.

Limited Company- Since the business is legally distinct from the people who run it finances are kept separate. This means owners are not personally liable for the firm's debts. Like a Limited Liability Partnership, Limited companies have a responsibility of registration of information at Companies House. Accounting standards are higher and more complicated than a sole trader and a partnership.

Individual Responsibilities within each structure

Sole Trader - As a sole trader, it is the individual owner who is **responsible for every aspect associated with the business**. This includes areas such as financial organisation of their business, record keeping of accounts (expenses and sales) and management decisions.

Partnership -- Within this business structure, you and your partner (or multiple partners) will personally share any responsibility that is associated with the business. This includes financing costs (e.g. equipment or stock) and covering any losses made by the business. Usually, all partners are fully responsible for all debts owed by the business. Any profits made will be split between the partners. Each partner must also individually register as self-employed and submit their own tax return.

Limited Liability Partnership- This type of business structure offers more protection of the partners personal assets from the liabilities of the business. Here partners are not personally liable for the businesses debts if the partnership fails- meaning creditors cannot go after any personal income or assets. This is due to the initial liability being limited to the amount of money each individual partner has invest in the business. The responsibilities, including profit shares, will be determined by a Limited Liability Partnership agreement established when setting up the business.

Limited Company - A director is someone who manages the day-to-day aspects of running a limited company, which includes all operational, financial, and statutory administrative duties. Directors are appointed by the shareholders or guarantors (members) who own the company. In many cases, particularly small companies, shareholders appoint themselves as directors, thus taking full responsibility for running their own companies.

Other Considerations

- ▶ Make sure people in your business should really be there.
 - ▶ Are all partners active or should they be removed. Keeping non-active partners can lead to issues with financing, succession, inheritance planning.
- ▶ Is the business structure correct for your future strategy?
- ▶ Does the structure work when you balance tax efficiency with profitability?
- ▶ Are your assets and liabilities in the right place?
- ▶ If looking at contract farming, share farming or other joint ventures make sure you take the correct advice on structuring them to maximise their potential whilst protecting your own position.