



Principles of Business

Term 3 course n°6

Business Legal Structures and Modalities

Limited liability, Sole Trader, SA, SAS.

BA 1st Year – 30/04/2020

Questions about previous course

I advise you to read carefully the article from New Scientist : « Top 10 ways to make better decisions”, by Kate DOUGLAS and Dan JONES that we have been using in previous course. It is a very serious article written in colorful english so it deserve a deep reading.

Do you have some questions about it ? Did you get the Wason test ?

Some question about the common psychological bias mentioned in the article :

- 1) During a political discussion about the government, a person state that the current government did nothing meaningful, and another state that the government has been doing a lot. Which bias can be involved ?
- 2) Someone refuse a bet in which he can bet 10€ for a 50% chance to get 22€. It is statistically not rational because $(22€ \times 50\% + 0€ \times 50\%) - 10€ = +1€$. Which bias is involved ?
- 3) You are looking to buy an home expresso machine and start to make some internet research. The first machine you find cost 1 000€. Then you fin a second one at 750€ and think “this one is cheap”. Which bias is involved ?
- 4) A student think that exam at the start of the year are less important than exam at the end of the year and says “if I do bad at the beginning I will catch up”. Which bias can be involved ?

Business Legal Structures and Modalities

When beginning a business, you must decide what form of business entity to establish. Your form of business determines how the business will be legally managed and which income tax return form you have to file.

Business structures varies from country but all in all you will find roughly the same shapes of business structures around the world.

As a Marangoni student, you will use legal structures for your FB3 Honor Project.

Sole Trader (UK)

If you're a sole trader, you run your own business as an individual and are self-employed.

You can keep all your business's profits after you've paid tax on them. You're personally responsible for any losses your business makes. You must also follow certain rules on running and naming your business.

You need to set up as a sole trader if any of the following apply :

you earned more than £1,000 from self-employment between a 1 year timeframe

you need to prove you're self-employed, for example to claim Tax-Free Childcare

you want to make voluntary Class 2 National Insurance payments to help you qualify for benefits

Source : UK government ; <https://www.gov.uk/set-up-sole-trader>

Sole Trader (UK)

How to set up as a sole trader

To set up as a sole trader, you need to tell HMRC that you pay tax through Self Assessment. You'll need to file a tax return every year.

Sole trader responsibilities

Keep records of your business's sales and expenses.

Send a Self Assessment tax return every year.

Pay Income Tax on your profits and Class 2 and Class 4 National Insurance.

You'll need to apply for a National Insurance number if you're moving to the UK to set up a business.

VAT

You must register for VAT if your turnover is **over £85,000**. You can register voluntarily if it suits your business, for example if you sell to other VAT-registered businesses and want to reclaim the VAT.

Source : UK government ; <https://www.gov.uk/set-up-sole-trader>

Sole Trader (UK)

Naming your business

You can trade under your own name, or you can choose another name for your business. You do not need to register your name.

You must include your name and business name (if you have one) on official paperwork, for example invoices and letters.

Business names

Sole trader names must not :

include 'limited', 'Ltd', 'limited liability partnership', 'LLP', 'public limited company' or 'plc'

be offensive

be the same as an existing trade mark

Your name also cannot contain a 'sensitive' word or expression, or suggest a connection with government or local authorities, unless you get permission.

Example : To use 'Accredited' in your company's name, you need permission from the Department for Business, Energy and Industrial Strategy (BEIS).

Source : UK government ; <https://www.gov.uk/set-up-sole-trader>

Sole Trader (UK)

In Britain, anyone who begins work for themselves is considered by the Government to be a self-employed sole trader, regardless of whether or not they have advised HM Revenue and Customs.

A sole trader can employ staff, but is personally responsible for any losses the business makes.

Advantages : simple to start, requirements for record keeping are far more straightforward than other business structures.

Disadvantages : the simplicity of this structure also has its limitations. Unlike forming a limited company, it lacks a clear distinction between personal and business income. Sole trader is also personally liable for any debts the business incurs. There is no legal distinction between the owner and the business entity

Sole Trader in other countries

In France Sole Trader is called **Entreprise Individuelle**. A simplified status also exists : Micro Entrepreneur for business under some turnover threshold, 176 200€ for trading goods or renting, 72 500€ for services.

A proper accounting is not required only a journal of invoices.

There is no VAT under 85 800€ for trading goods or renting and 34 400 € for services.

Entreprise unipersonnelle à responsabilité limitée (EURL) is a sole trader with limited liabilities.

An exact translation of "sole proprietorship" can be difficult in some country , because the focus of the concept can change. An example is the Brazilian concept of "sole business" that was split into two main kinds of formal freelancer :

Sole professional (equivalent to Profession Libéral / Libero professionista / vrij beroep) : : with higher level academic certificate and regulations for formal control of autonomous exercise (ex. sole doctor's office).

Sole entrepreneur : typical "little entrepreneurs", as sole craftsman, autonomous taxi driver, and many others, that can be formal. An informal freelancer, through a simple process, can be formalized as *sole microentrepreneur*

German and Austrian tax laws also differentiate between sole professionals and other sole proprietors.

Facts about Sole Trader

A 2018 McKinsey study found that up to 162 million people in Europe and the United States engage in some form of independent work. It represents 20-30 percent of the entire working age population. This figure is surprisingly high...

France has around 3 to 4 millions independent workers and 26 millions wage-earning workers.

Limited Company

In a **limited company**, the liability of members or subscribers of the company is limited to what they have invested or guaranteed to the company.

Limited companies may be further divided in public companies and private companies. Who may become a member of a private limited company is restricted by law and by the company's rules. In contrast, anyone may buy shares in a public limited company.

Why the name “**Société Anonyme**” in France or the equivalent in romane language / civil right tradition countries ?

Société Anonyme where created in 1807 in France at a time of family capitalism. The company could have shareholders who's name don't directly appear in the name of the company.

Public Limited Company

A public company, publicly traded company, publicly held company, publicly listed company, or public limited company is a company whose ownership is organized via shares of stock which are intended to be freely traded on a stock exchange or in over-the-counter markets. A public company can be listed on a stock exchange (**listed company**), which facilitates the trade of shares, or not (**unlisted public company**).

The choice to be listed depend obviously on the size of the company but other factors are involved : need for capital, family culture.. etc...



The Dutch East India Company (also known by the abbreviation "VOC" in Dutch), the world's first formally listed public company in 1602.

Legal structure over the world

UK	Sole Trader	Limited Liability Company (LLC)	Public Limited Company (PLC)	
USA	Sole proprietor	Limited Liability Company (LLC)	Public Limited Company (PLC)	
France	entreprise individuelle	Entreprise Unipersonnel à Responsabilité Limitée (EURL), Société A Responsabilité Limitée (SARL), Entreprise Individuelle à Responsabilité Limité (EIRL)	Société Anonyme (SA)	Sociétés par actions simplifiée (SAS)
Spain	Autónomo	SL	SA	
Netherlands	Zelfstandige Zonder Personeel (ZZPer)	Besloten Vennootschap met beperkte aansprakelijkheid (BV)	Naamloze Vennootschap (NV)	
Germany	Gewerbeanmeldung, Freiberufler	Gesellschaft mit beschränkter Haftung (GmbH)	Aktiengesellschaft (AG)	
Italy	forfettario	Srl	S.p.A.	
Israël	Ossek Patour (עוסק פטור), Ossek Mourshé (עוסק מורשה)	Ba"Am (בע"מ)		

Source : Author, subject to mistake or omission