Types of trading entity

What business structure suits you

Whether you are starting up a brand new business or adding to an existing one you should think carefully about which business structure is most appropriate for the type of activity that your business will be undertaking.

The legal form you choose will depend on the commercial needs of your business, the risks that you are willing to take and your own personal situation. If you are going into business with someone else, you should also think about the practicalities of your working relationship such as who will do what, how you will make decisions and what happens if one of you wants to exit the business.

It is advisable to discuss this all before you start the business and put it into a formal agreement so that you have the 'rules' to refer to later. You have three main options and the sections below will explain the advantages and disadvantages of each.

Soletrader

Most start-up and small businesses find setting up as a sole trader the best option. As a sole trader you are self-employed and may trade in your own name or may register a business name.

Some characteristics of being a sole trader are:

- Setting up can be cheaper and simpler than a limited company.
- You can produce simple accounts.
- You can form a limited company later as your

business grows and transfer the business to it.
- You are personally liable for all your business debts.
- Your options for raising money are limited.
- To establish a business as a sole trader, the proposer need only make an application for a business licence by completing a New Business Application Form.
- You can also register a trading name with the Jersey Financial Services Commission for which there is a fee also using the New Business Application Form.
- You will need to inform the tax and social security departments of your actions.

This page will explain what is required to set up a sole trader business in Jersey.

Partnership

Two or more self-employed people can work together as partners, using their own names or a business name and sharing the profit.

Some of the characteristics of a partnership are:

- Setting up can be simpler and cheaper than a limited company
- You can produce simple accounts.
- You can form a limited company later as your business grows and transfer the business to it.
- You may be able to raise money by introducing new partners
- A ‘sleeping partner’ will contribute capital and have a share in the profits but will not be part of the management of the business.
- You are liable for all the partnership business debts even if the other partner was responsible for incurring them.
- If a business has more than one owner, the owners must determine their working relationship. The importance of discussing the terms of your relationship when setting up a partnership agreement, including how a partner can withdraw, cannot be over emphasised. Work out as much detail as you can with your partner and seek the services of a solicitor to draw up the final agreement.

- To establish a business as a partnership the partners need only make an application for a business licence by completing a New Business Application Form.
- You can also register a trading name with the Jersey Financial Services Commission for which there is a fee by completing a New Business Application Form.
- You will also need to inform the tax and social security departments of your actions

This page will explain what is required to set up a partnership in Jersey.

Limited Company

A limited company is a separate legal entity, distinct from its shareholders, directors and employees. Unlike a sole trader or partnership, a limited company is not the same as the individuals who own or manage it and has the following characteristics:

- A limited company may give your business more credibility.
- Your liability is limited to the amount you agree to invest in the company by buying its shares. However, if you give a personal guarantee (e.g. as security for the company's overdraft) your personal assets could be at risk. Also, if the company trades 'wrongfully' or 'fraudulently' you may be personally liable as a director.
- It can be easier to raise large sums of money, or to sell part of the business.
- It is easier to pass on shares to a member of your family, or another successor, when you retire or for the executor of your will to do so when you die.
- There can be tax advantages for to keeping money in the business or making a larger company pension contribution.
- Forming a limited company is more costly than forming a sole trader or partnership.
- Maintaining the business structure is more formal and costly, e.g. you will be required to complete an 'annual return' to the Jersey Financial Services Commission with an annual fee. If the annual return is

not completed and returned by the end of February financial penalties will be incurred and ultimately your company could be struck off the register.

- More detailed annual accounts are required and as a result are likely to cost more.
- If you decide to cease trading, it can be difficult and expensive to wind up the company.
- The incorporation of a limited company in Jersey requires the completion of several documents and a Memorandum and Articles of Association. If two or more people are involved in setting up the company you should ensure that a shareholders agreement exists, see above, and that the following key issues and 'what if' scenarios are also covered.
- An incorporation fee is required payable to the Jersey Financial Services Commission and a fee is also payable with the Company annual return.
- To establish a business as a Limited Company the beneficial owners must make an application to for a business licence Under Part 7 of the Control of Housing and Work (Jersey) Law, 2012

This page will explain what is required to set up a limited company in Jersey.

For information on other legal entities available in Jersey

Click here

Relevant Links

- New Business Application Form
- Registry fees
- Starting up as a sole trader or partnership in Jersey
- Setting up a limited company in Jersey

Additional licence and registration requirements

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