You've finally mustered up the courage to wave goodbye to your boss and are now going solo. Surely you didn't think this would be easy, did you?

As a matter of fact, many who have made the same choice know that this is just the beginning.

This is the time for a series of decisions to be made. You can take comfort in the fact that once your company formation is in place, each step along the way will be easier.

A key decision to be made when starting your own business, or becoming self-employed for the first time, is to decide what type of business structure you want to follow.

There are a number of options, all of which have their merits and differ in legal and taxation terms – but your four key options are as follows:

- Sole trader
- Partnership
- Limited liability partnership (LLP)
- Limited company

Simon Renshaw, director of AABRS, explains what you need to know about each.

On your own as a sole trader

By opting for the sole trader route, you and your business are effectively one and the same – from both a tax and legal perspective.

This means that you are personally responsible for the business – and any debts it incurs.

The profits you make, which are sales minus costs, until April 5th of each year are declared on your annual self-assessment tax return (online deadline January 31st!) and classed as your personal income that year – even if it is not paid out as salary or into to your personal bank account.

You must pay income tax and national insurance on this at the standard income tax rates and you do not need to register the business as such, but you should tell HMRC that you are in operation and self-employed for tax purposes.

There are benefits associated with operating as a sole trader. They include:

- Simple set up and administration. One of the main advantages of operating as a sole trader is how easy it is to set up and run. You have to be VAT-compliant, deduct and pay PAYE and National Insurance to HMRC if you have employees and file a self-assessment tax return, but that's where your obligations end.
- There are fewer financial restrictions. It's much easier to take money out a sole trader than a limited company. You can take money out of the business as and when it's needed. That's because your personal finances and the business's finances are one and the same.

- There's greater privacy. Certain information about limited companies has to be made public. Being a sole trader is different. All the details about the business can be kept private. That provides greater anonymity (for example, if you are running the business in your free time while being employed) and reduces the costs associated with filing annual accounts.
- The business is easier to close down. Closing down a limited company takes time and can be costly, particularly if it has debts. Winding up a sole trader is a relatively simple affair, although if there are debts you cannot repay then it can be problematic.

A partnership: It takes two to tango

A partnership arrangement is similar to that of a sole trader but differs in that it has more than one owner.

All partners own a specified percentage of the profits, and the liabilities, so they must pay tax on that percentage.

As with a sole trader, each partner's share of the profits is treated as their income.

There are benefits associated with running a partnership, both when compared to a sole trader and a limited company:

- Shared responsibility. Having more business owners allows the financial and operational responsibility for running the business to be shared. Tasks can be assigned according to skills and the individual workload can be reduced.
- Flexibility. Conventional partnerships are easier to form than LLPs. The internal structure is also versatile as changes can be made to the legal rights and responsibilities of partners and even to their profit-sharing ratios.
- Decision-making. Partners share the decision making which can be a beneficial as there are more brains to pick. However, it can also be problematic if not everyone agrees.

Limited liability partnership (LLP)

In a nutshell, this type of structure has some of the same characteristics of a conventional partnership, such as the internal management, tax liability and the distribution of profits, but it also provides the limited liability of an incorporated company.

Limited liability partnerships tend to be used by professional services firms such as solicitors and architects. The benefits include:

- Tax transparency. LLPs are generally not taxed as corporations, so they do not need to pay corporation tax. Instead, each member is taxed through self-assessment as a self-employed individual.
- Flexibility. The internal structure of an LLP is just as versatile as a conventional partnership, so changes can be made to the rights and responsibilities as necessary.
- Professional standing. Limited liability can enhance the professional standing of a business over and above a conventional partnership. This can be advantageous when trying to win high-value contracts.

- It's easy to appoint new members. Unlike an LTD, there's no share capital in an LLP. That means new members can be appointed without having to issue new shares.
- National insurance savings. An LLP do not have to register as an employer if the only people working for the company are members. That can lead to significant national insurance savings.
- Easier to make decisions. There aren't any requirements for those involved in LLPs to make decisions by resolution or to hold board meetings or general meetings as is the case in LTDs.

Limited Company (LTD)

In the case of a limited company, the business becomes a separate legal entity entirely. This means that the company must be formed, or incorporated, and registered at Companies House.

It will also have to have certain standard legal documents that govern what it can do and what business it operates in.

The company will be owned and controlled by those who own its shares and you can allocate shares to any number of people when the company is incorporated.

You could keep all the shares for yourself, allocate some to a spouse, or sell them ('equity') to raise funds.

This does however require more administration, for example annual accounts being filed at Companies House and an annual corporation tax return, but these can be taken care of simply and quickly by an accountant.

Having a limited company comes with significant benefits, which include:

- Tax efficiency – due to the ability to receive income in the form of both salary and dividends
- Reduced risk – liabilities (debts) of the business are separate from that of the owner(s), reducing the risk if things go wrong
- Image – they tend to convey a more professional image of the business
- Flexibility – since equity can be sold, limited companies are easier and more flexible when it comes to raising investment and funding.

So now is the time to ask yourself what exactly is holding you back, and why. If you've already thought about it, and have spent five minutes reading this article, you must be considering this seriously.

Just weigh up the options, crunch the numbers and get on the 'entrepreneurship' bandwagon.