

Types of businesses – the ‘veil of incorporation’ – worksheet

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In the leading case of *Salomon v Salomon & Co. (1897)*, the House of Lords held that, the rights and liabilities of a corporation are separate and distinct from those of its shareholders. The incorporation of a business is like a veil that shields its shareholders from corporate debts and other similar obligations and liabilities. This principle has continued to be upheld by the courts ever since.

In the United Kingdom there are essentially five types of businesses. They are:

1. Sole Trader - ST
2. Partnerships - PS
3. Limited Liability Partnerships - LLP
4. Limited Companies - LC
5. Public Limited Companies – PLC

Stage 1

Read these definitions and match them to each of the above:

_____ is organized in such a way as to give its owners limited liability so that they will not be required to pay more than the value of their shares

_____ by which owners conducting a business jointly have unlimited liability and the actions of one of the owners are binding on each of the other

_____ is formed under applicable state statute in which the partnership is liable as an entity for debts and obligations and the owners are not liable personally

_____ has issued securities through an offering which are traded on the open market

_____ has unlimited liability for all the money the business owes

Stage 2

According to the definitions which businesses have:

Limited liability	Unlimited liability

Stage 3

Now, look at these statements. Which of them applies to each type of business? Divide them up into the business categories below. Some apply to more than one category.

Note: **members** are shareholders in a company or partners.

1	Not controlled by partners but by at least 2 'designated' members
2	Needs at least 2 partners
3	Partners not responsible for debts
4	Capital provided by owner
5	Shares must be paid for
6	Needs at least two Directors
7	Shares cannot be listed on the Stock Exchange
8	Limited to 20 partners (except solicitors and accountants)
9	Must be registered at Companies House
10	No incorporation necessary
11	Partners are agents
12	Shares can be given away
13	'perpetual succession' - although there might be changes in the members
14	Capital provided by partners
15	Needs only one Director
16	Must be audited annually
17	A separate legal personality distinct from members
18	Needs only one member
19	Business comes to an end on death
20	Shares are listed on the Stock Exchange
21	Must have minimum issued and paid up capital
22	Management by members
23	Accounts must be filed and are open to inspection
24	Only Directors can manage, not members
25	Management by owner
26	Incorporation necessary
27	Minimum authorized share capital of £50,000
28	No minimum payment for shares necessary
29	Needs at least 2 members
30	Must have Company Secretary

Sole Trader	Partnerships	Limited Liability Partnerships	Limited Companies	Public Companies
10	10			

Stage 4

Look at these situations and imagine you are acting for each of these clients. What advice would you give about the best sort of business to form in each of these situations, and why?

1. You have a client who in his spare time has designed and set up a website selling hand-printed t-shirts. He has a job as well and does not want to give it up. He thinks of his website as a hobby as he only sells what he can produce.
2. Two brothers are buying an existing and successful restaurant - not only the contents of the restaurant but its name and goodwill. The landlord of the property has agreed to grant them a new lease so that they can stay at the premises.

They plan to run the restaurant and work in it full time but they will need outside investors, as they don't have enough money to buy the restaurant on their own.

3. A group of four friends have decided to open a kindergarten together. They are all mothers with children of their own and some of them have primary teaching experience. They also want to offer the facilities to other children in the area and charge fees although the number of children they can look after will be 10 –15 maximum.
4. Some colleagues, who all work together as salesmen for a leading car manufacturer, have been offered the chance to take over a showroom, including the premises and stock, at a lower-than-market price. They have also been promised that they will receive redundancy payments to help them.
5. Your client is a successful businessman. He now wants to buy an existing chain of retail clothes shops and open some more in order to create a new high street brand. His investment would be substantial, but he wants to raise additional capital through offering stock, which would increase in value as the business expands and grows.

Stage 5

You have a rich client who wants to start a business with a friend, and his friend's wife. The business is to manufacture and sell a new office product that will revolutionize the way people work. Your client is putting up the money and his friend will assign the ownership of the patent of the product to the business.

Your client envisages that the product will be very successful and probably sell in large quantities around the world over the forthcoming years.

What is your advice about the best type of business to form? Remember who you are acting for. Your client is putting up the money and needs to have his investment protected.

Write a letter to your client outlining your advice and why you recommend the particular form of business you are advising as well as why you are opposed to the other alternatives.