Lesson Eleven
Business Law

Business law is the area of law relating to business organizations, business structures, and business transactions. The area of business law also includes the issues related to real estate, tax, and the environment.

In this lesson we will have a look at the issues of company formation in the UK and different types of business organisations.¹

Incorporating a company

Before your business can begin operating as a limited company, it has to be registered with the Registrar of Companies - Companies House. Incorporation is the process by which a new or existing business is converted into a corporate body.

You can handle the registration process yourself, but it is a good idea to seek professional advice (e.g. a company formation agent, solicitor, accountant or chartered secretary) to ensure that incorporation is right for you.

The Companies Act 2006, which comes into force in stages from January 2007 to October 2009, introduces a number of changes that affect both directors and shareholders of limited companies.

To set up as a limited company in the UK, you - or the agent acting for you - will need to file several documents and completed forms to Companies House, or, in Northern Ireland, to the Companies Registry for Northern Ireland:

- a Memorandum of Association, giving details of the company's name, location and what it will do;
- Articles of Association, describing how the company will be run, the rights of the shareholders and the powers of the company's directors; each subscriber to the shares should sign this;

¹ For more information refer to:
http://www.companieshouse.gov.uk/infoAndGuide/companyRegistration.shtml
http://www.businesslink.gov.uk
http://www.brytania.co.uk/
The current Companies House record is 5 minutes to vet (= verify) and issue a Certificate of Incorporation for an electronic application.

**QUESTION ONE**

What are the Polish equivalents of the following business law terms?

- **Registrar of Companies/Companies House**
- **Memorandum of Association**
- **Private Limited Company**
- **Articles of Association**
- **The Companies Act**
- **Company Secretary**
- **Public Limited Company**
- **Certificate of Incorporation**
- **Company Registered Office**
- **Company Incorporation/Formation**
The company's officers

The people formally appointed to run the company are the officers of the company: the company directors and company secretary.

Private companies must have at least one director, but after 6 April 2008 it is not essential to have a company secretary. If there is only one director, this must be stated in the company's Articles of Association.

Public limited companies (PLCs) must have at least two directors and a company secretary. The company secretary of a PLC must be formally qualified.

Company directors must be at least 16 years of age, although there is no upper age limit.

Every company must have at least one director who is a "natural person" (osoba fizyczna), i.e. not another company. There is a grace period until 1 October 2010 for any company that only had corporate directors on 8 November 2006.

Can one person form a company?

It's possible for a single person to form a so-called "single member" private company and to be the sole director of this company. If the company decides to have a company secretary, they cannot be the same person as the sole director.

Types of limited company

Most small businesses that opt for limited company status become private limited companies rather than public limited companies (PLCs). The main differences between them are that:

- PLCs can raise money by selling shares on the stock market - private limited companies cannot;
- PLCs must have share capital (kapitał udziałowy) of at least £50,000;
- PLCs must have at least two shareholders (udziałowcy), two directors and a qualified company secretary.

A private company limited by shares can convert into a PLC, but it will need to re-register in order to do this.

Private limited companies are owned by their shareholders and are limited by shares. This means that shareholders who paid in full for their shares are not liable for (= responsibility for) the company's debts. Shareholders who part-paid for their shares are liable for the outstanding amount owing to the company for their shares.

Tax matters of a limited company

Limited companies have to pay corporation tax (podatek dochodowy od osób prawnych) on their income and profits. They also need to operate a PAYE² (Pay As You Earn) system to collect and pay income tax and National Insurance contributions ( składki ubezpieczenia społecznego) from their employees - including company directors.

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² Income tax; an amount collected by employers on behalf of the government from employees as a provisional payment of tax on the employee's income.
The company itself must work out how much corporation tax it needs to pay, using a self assessment system. To avoid paying penalties, it’s important to understand how this system works and when your company needs to make returns (zeznanie podatkowe). Your accountant or auditor will be able to advise you.

**What do I need to do about taxes when I set up a company?**

When you register a new company, the Companies Registrar will pass on the details to HM Revenue & Customs (HMRC) (Urząd Podatkowy i Celny). You must also contact your own local HMRC office to let them know that your company exists. If you do not do this, you may have to pay a penalty.

**QUESTION TWO**

*Company Formation. The Stages.*

Match the partnerships and then fill in the gaps in the chart illustrating the process of company formation with the terms provided below.

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**QUESTION THREE**

*Other types of business organisations.*

1. In the table below you can read about three other types of business organisations which exist in Great Britain: **SOLE TRADER, GENERAL PARTNERSHIP** and **LIMITED LIABILITY PARTNERSHIP**. Decide which letters in the table (A, B or C) they correspond to.
2. Read carefully the descriptions of each type of business organization and decide which points are pros (+) and which are cons (-) of each business.
3. You can cut the table into individual stripes, mix them and then try to group them into three sets again (A, B and C).
A

- A business owned by one person.
- All financial risks are taken by that person and all that person's assets are included in that risk.
- The owner has almost complete control over how the business is run.
- The administrative costs of running a sole business are small.
- The owner's all personal assets are at risk if the business fails.

B

- A business run by two or more people together on the basis of a written agreement detailing this arrangement.
- Profits are usually shared between partners according to the agreement.
- Profits may be shared unequally,
- Liabilities and obligations which may arise are shared jointly. Even if you only own 1% of the business you will still be responsible for 100% of the liability.
- A very risky type of business because of all the potential for conflict, and the financial effect conflict between partners would be likely to have on the business.
- Often more money can be raised to start the business if more than one person is involved.
- The workload can be shared.
- All personal assets of each partner are at risk if the business fails.
- Decisions are taken jointly. A deadlock may arise.

C

- Individual partners are protected against personal liability for certain partnership liabilities.
- A business itself will be liable for the full extent of its assets.
- The business is controlled by the 'designated members' (who have a similar responsibility to a directors / secretary of a Ltd Company) and the 'members'.
- Capital is provided by the members.
- Incomes derived by the members will be closer to that of a 'Partnership' than to the dividends paid by companies.
Q3. A = sole trader; B = partnership; C = limited liability partnership