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Business Legal Essentials



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Your essential guide to the world of law for your business.

If you are looking to start up in business, join forces with others, or maybe looking to buy or sell a business - you will no doubt know what you want to do, but may not know how to go about it.

Sound familiar?

If so, this E-Book will prove very useful for you, explaining in plain language the key steps you should be taking and how to go about dealing with them.

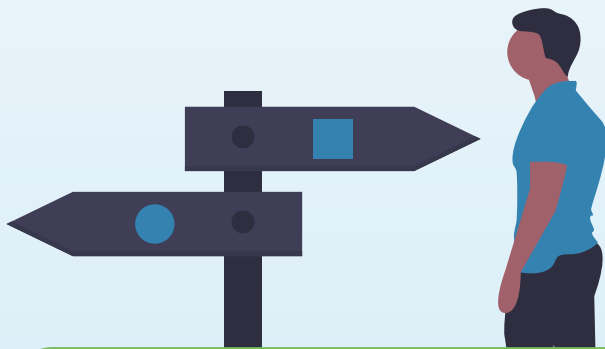


Starting a business

Deciding to start a new venture is an exciting prospect. But it can be daunting to many when trying to determine the right process to follow. Read on for the top tips and guidance when starting a new business.

Business Structure

Once you have your business idea or concept, you need to decide on your business structure. Sole Trader and Partnership are amongst your options. In this guide, we will focus on one of the most popular, [Limited Companies](#).



What is a Limited Company?

A Limited Company is its own stand-alone legal entity. This means that any legal liability is (generally) limited to the money and assets that exist within the company. If the firm was to go bust, then going after your personal assets is not permitted, as could be the case with a Sole Trader.

With a Limited Company, you divide up share capital to create an ownership structure which fits with you, any co-owners and investors you may have.

Top tip:

Synchronising the company name with a web domain name has now become common practice. It helps build a brand identity and customer recall.

Did You Know?

According to the Department for Business, Energy and Industrial Strategy, in 2020 there were 2 million companies accounting for 34 per cent of all UK businesses.

Source: <https://www.gov.uk/government/statistics/business-population-estimates-2020/business-population-estimates-for-the-uk-and-regions-2020-statistical-release-html>

Shareholdings

You need to register a UK Limited Company with Companies House. At this initial stage, you need to state how the share capital is going to be divided between the owners and who will be directors in the firm.

Directors do not necessarily have to be shareholders, although it is common that they are.

This ability to issue shares is especially helpful if you are going into business

with others. It means you can ensure the share ownership is appropriate for each individual's role and also reflect investment in the company.

There is the possibility to offer different classes of shares, i.e. do they hold voting rights or special financial terms. This can be an area of real complexity and is best discussed with a legal professional.



What are the 'Articles'?

The Articles of Association provide detail about how the company will be run, agreed to by all initial shareholders as the company is formed.

Simply put, the Articles set out what the company can and cannot do, such as raising capital and voting rights.

It is a legal requirement that your company has Articles of Association. You can adopt standard 'Model' Articles (a majority of companies go down this route) or have bespoke Articles that better suit your needs.



Top tip:

If you are considering changing the Articles from the Model version, seek professional legal advice. It will ensure that the business is on the right track from the outset.

Shareholder Agreement - do I need one?

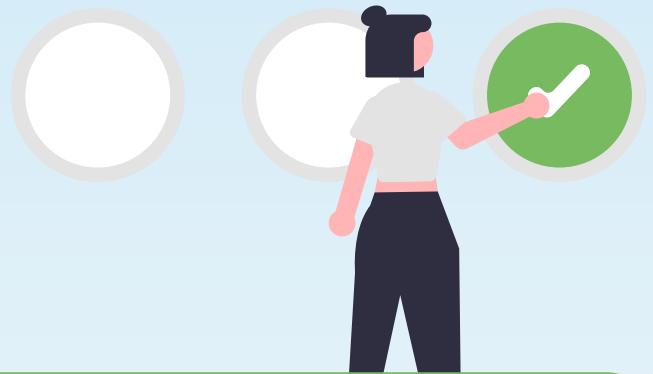
A Shareholder Agreement sets out clearly the rights of Shareholders.

At the outset, it may feel that everyone is in agreement and gets along. Unfortunately, things can change. A Shareholder Agreement will clarify how issues are handled without fuss and the potential for lengthy disputes.

The absence of a [Shareholder Agreement](#), may mean dealing with complex company legislation to determine your rights and obligations as Shareholders.

What types of things can I include in my Shareholder Agreements?

- Shareholder Roles
- Directorships
- Permitted Share Transfers
- Share Valuation Clauses
- Spending Approval Limits
- Dividend Policy



Top tip:

A Shareholder Agreement allows shareholders to sit down and work through potential issues together before they arise. As an important legal document, you should instruct an [expert solicitor](#) to prepare it on your behalf.

Other legal considerations when starting a new venture include:

- ✓ Registering trademarks, designs and patents (Intellectual Property)
- ✓ Terms & Conditions of Service - both off offline and online
- ✓ Handling customer data - complying with GDPR regulations
- ✓ Initial contracts - employment, premises, trading to name a few!



Joining forces to grow your business

As you continue to [grow your business](#), you may well look to [partner up with other companies](#) to provide additional impetus. This may be because there are clear benefits around linking up together for a certain project to share costs, or maybe they have access to markets that you can exploit.

Whatever the reason for teaming up together, your next thought will be on the structure and how to make it all work from a legal perspective.

Platform for Growth!

An effective joint venture can offer:

- ✓ Routes to new markets and clients
- ✓ Spreading cost or reducing risk
- ✓ Access to additional assets
- ✓ Upskilling of the workforce
- ✓ ... and many other benefits



What are the options available when setting up a Joint Venture?

There are various legal forms that you can choose when setting up a joint venture. It can take the structure of a new company that creates a separate legal entity, or perhaps a contractual arrangement that covers the terms.

There are advantages and disadvantages for each of these options. Your decision is likely to be influenced by the purpose and duration of the joint venture. You may also wish to take accounting advice to determine which structure is going to be most tax efficient.

Did you know?

A famous example of a Joint Venture can be found in Sony and Phillips joining forces in the 1980s to create the Compact Disc format. The rest is (very profitable) history!

Top tip:

Before entering into your Joint Venture, you should look carefully at your potential partner to satisfy yourselves that they have the skills, tools, financial standing and trustworthiness to go into business with.



Buying and selling businesses

Additional growth can be accomplished by looking to acquire an existing business to expand your operations. Alternatively, you may be looking to dispose of your business to generate cash for other plans.

Due Diligence, Due Diligence, Due Diligence!

When embarking on a potential business acquisition, the most important action you can take is to carry out thorough due diligence on all aspects of the business. This may save you a huge amount in the long run, as you will spot issues before moving forward with your purchase.

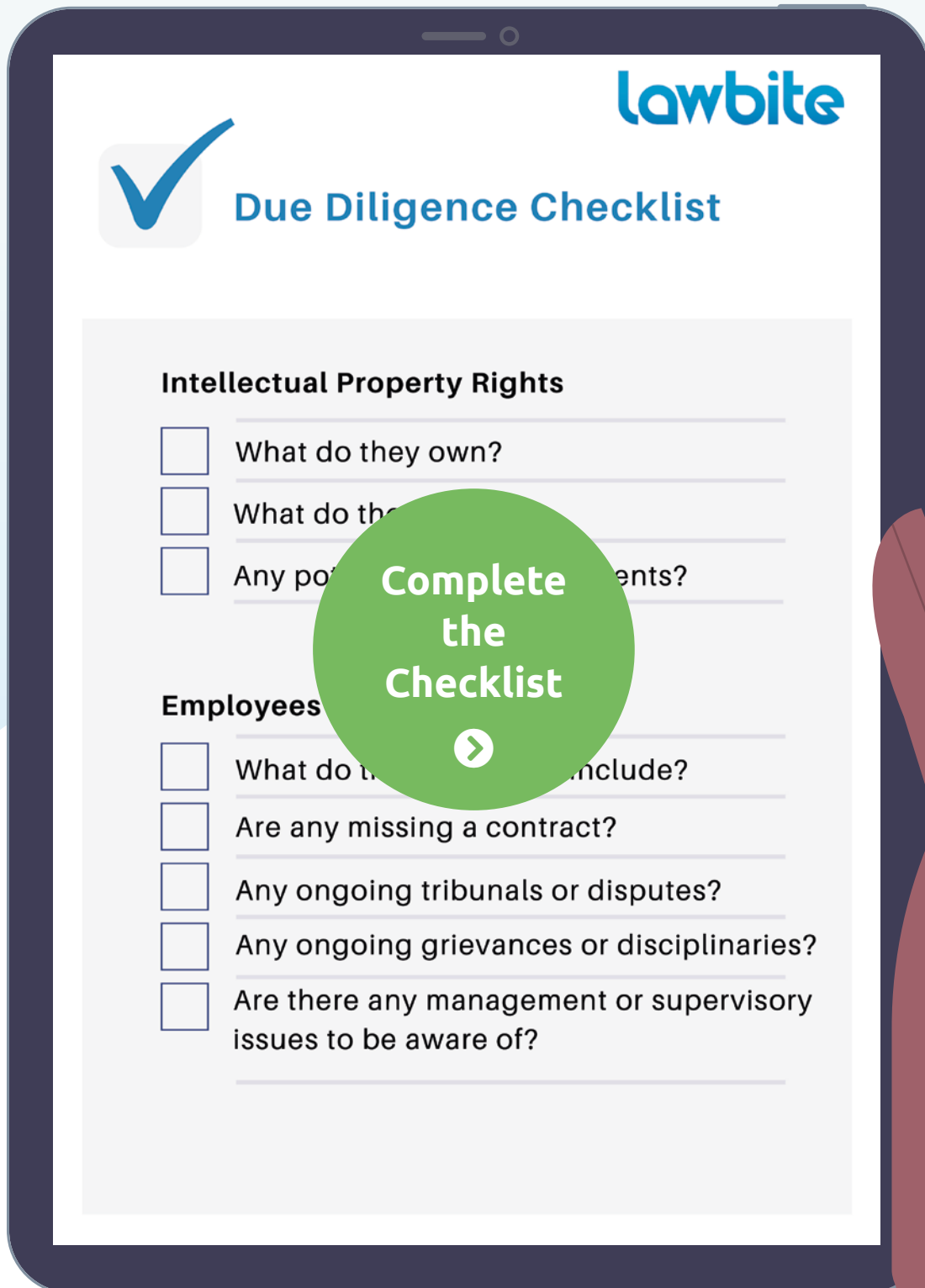
Below is a simple checklist of just some of the areas of the company you should investigate before proceeding.

- ✓ Trade Contracts
- ✓ Intellectual Property Rights
- ✓ Organisation and Employees
- ✓ Software and IT
- ✓ Plant and Machinery
- ✓ Premises


You should also take care to determine what, if any, disputes the target business is currently dealing with and what their impact may be.



Due Diligence Checklist:



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 **Due Diligence Checklist**

Intellectual Property Rights

- What do they own?
- What do they own?
- Any potential IP issues?

Employees

- What do the employees include?
- Are any missing a contract?
- Any ongoing tribunals or disputes?
- Any ongoing grievances or disciplinarys?
- Are there any management or supervisory issues to be aware of?

Complete the Checklist

Share Purchase or Asset Purchase?

With a share purchase you are buying the actual legal entity (the company itself). This means that you inherit all the company's assets, also its liabilities.

The key difference with an asset purchase is that you can 'cherry pick' the assets that you want. This enables you to leave any liabilities that you do not want to inherit with the seller.

Top tip:

Discuss your proposed transaction with your accountant and your lawyer at an early stage. They can help advise you as to whether an asset purchase or a share purchase is likely to be most suitable for you. Your accountant will also have a view on which route is likely to be most tax efficient.

What are Heads of Terms?

The Heads of Terms is a document containing the core commercial terms agreed between the parties. This is the document that will be circulated to the solicitors in order to draft the deal documentation.

What legal advice do I need to take when buying or selling a business?

The primary advice you need is from a corporate lawyer. Your [corporate lawyer](#) will be able to advise you regarding the transaction and of course draft the legal documentation to make it all happen.



Start-ups

Legal health check:

START

Growth business

Legal health check:

START



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