



D Other legal forms for business

Summary of points covered

- What is in this chapter
- Sole proprietorship
- Partnership
- Other types of registered company
- Community interest companies
- Re-registration to change the classification of a registered company
- What can be learnt from this chapter
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D.1 What is in this chapter

Chapter D provides some brief notes on various general purpose legal forms for carrying on business. It starts with the simplest form of all, sole proprietorship (or self-employment), (D.2). Two or more persons carrying on a business or profession in common with a view of profit are in partnership (D.3), which has developed into the sophisticated form of the limited liability partnership (D.3.3). The rest of the chapter is devoted to the various lesser used forms of company which can be registered under CA 2006, guarantee companies and unlimited companies (D.4) and community interest companies (D.5), and how various types of company can be transformed into other types (D.6).

D.2 Sole proprietorship

An individual who carries on a business or profession personally without partners (see D.3) is said to be the 'sole proprietor' of the business or profession. A professional person is usually described as a 'sole practitioner' whereas a sole proprietor of a business is usually described as a 'sole trader'. Sole proprietors are also described, especially for tax purposes, as 'self-employed'.

In sole proprietorship there is no legal separation between the business and personal affairs of the proprietor, and they are directly responsible for all the debts incurred in carrying on the business or profession.

A sole proprietor can operate under a business name which is not their surname (or surname plus one or more forenames or initials), but this is subject to the same restrictions in CA 2006, ss 1192 to 1199 (see 3.5.11), as apply to companies not using their registered name. Otherwise nothing in CA 2006 applies to sole proprietors. They are also not subject to the corporate insolvency provisions of IA 1986 discussed in **Chapter 20**. The insolvency procedures applicable to individuals are bankruptcy and individual voluntary arrangement.

D.3 Partnership

D.3.1 General partnerships

Persons (natural or legal) carrying on a business or profession in common with a view of profit, without being incorporated, are said to be in ‘partnership’ (Partnership Act 1890, s 1) and their association is known as a partnership ‘firm’ (s 4(1)). The law of partnership in the United Kingdom has been codified in the Partnership Act 1890. The members of a corporation aggregate, such as a company registered under CA 2006, are not in partnership (Partnership Act 1890, s 1(2)).

Partnership is created by agreement between the partners without any action by the State. But it is not the agreement alone which creates a partnership. It is carrying on business in a particular way (namely, in common with a view of profit) which creates a partnership, and a partnership comes into existence only when the partners begin to carry on business in accordance with their agreement (see *Khan v Miah* [2000] 1 WLR 2123 on what constitutes carrying on business for this purpose). This may be contrasted with a registered company, which comes into existence as soon as it is registered, regardless of whether it transacts any business.

A partnership formed in England and Wales is not a legal person, though legislation treats it as one for some purposes. For example, CA 2006, s 1216(2), allows a partnership to be appointed auditor of a company, and civil claims can be brought by and against a partnership in its own name (PD 7A, para 5A.3, supplementing the Civil Procedure Rules 1998 (SI 1998/3132)). A partnership formed in Scotland is a legal person. The English and Scottish Law Commissions published a joint report on partnership law, proposing that English partnerships should have separate legal personality (Law Commission, *Partnership Law* (Law Com No 283, Cm 6015) (London: Stationery Office, 2003)). The government decided not to act on this report.

Being a member of a partnership imposes liability for all debts and obligations of the firm incurred during membership (Partnership Act 1890, s 9) regardless of any agreement to the contrary between the partners. This is dramatically different from the position of members of a body corporate such as a registered company, who are not liable for the debts of the corporation unless liability is imposed on members by the constitution of the corporation or by statute. As Cave J said in *Re Sheffield and South Yorkshire Permanent Building Society* (1889) 22 QBD 470, at p 476:

[Counsel] argued that persons who unite together for trading or making profits in any way are, at common law, liable for all debts which are incurred during the time they are members of the association, and that, if the association has ultimately to be wound up, past members must pay their shares of the debts. As a general rule—apart from legislation—that is perfectly true with respect to partners, and with respect to associations in the nature of partnership where there is no incorporation, but with respect to corporations the case is entirely different where the legislature has not thought fit to intervene, or where the charter under which the body is incorporated does not provide otherwise. A corporation is a

legal persona just as much as an individual; and, if a man trusts a corporation, he trusts that legal persona, and must look to its assets for payment: he can only call upon the individual members to contribute in case the Act or charter has so provided.

Linked to this is the further important difference that every partner in a firm may act for the purposes of the firm's business, and the acts of any one member of a partnership bind all the partners (Partnership Act 1890, s 5). This contrasts with the position in an incorporated company, where a board of directors must be appointed to act for the company in matters of business and no member of the company has, as a member, any authority to bind the company (see 15.1.1).

Sometimes, partnership firms are described as 'companies'. Often the name of a firm consists of the name of one or more principal or founding partners followed by the words 'and Company' to represent the other partners. Confusingly, 'firm' is sometimes used to refer to any entity carrying on business, whether a registered company, partnership or sole trader. This is how the Financial Conduct Authority (FCA) uses the term. Even more confusingly, it is quite common for a sole practitioner to add 'and Company' to their name even though there are no actual partners.

A partnership can operate under a business name which is not the partners' surnames (or surnames plus one or more forenames or initials), but this is subject to the same restrictions in CA 2006, ss 1192 to 1199 (see 3.5.11), as apply to companies not using their registered name. Otherwise nothing in CA 2006 applies to partnerships. The corporate insolvency provisions of IA 1986 discussed in Chapter 20 apply to partnerships as modified by the Insolvent Partnership Order 1994 (SI 1994/2421).

D.3.2 Limited partnerships

The general rule of partnership is that there is no limit on a partner's liability for the firm's debts and obligations. It is possible, however, under the Limited Partnerships Act 1907 to form a limited partnership consisting of (a) one or more persons called 'general partners', who are liable for all debts and obligations of the firm, and (b) one or more persons called 'limited partners', who contribute capital to the firm on entering into the partnership but are not liable to pay anything more to meet its debts and obligations (s 4(2)). A limited partner does not have power to bind the firm (s 6(1)).

A limited partnership must be registered at Companies House, otherwise every limited partner in the partnership will be deemed to be a general partner with unlimited liability (ss 5 and 15).

A limited partnership must be registered with a name that ends with the words 'limited partnership' or the abbreviation 'LP' (Welsh equivalents can be used if its principal place of business is to be in Wales) (s 8B), but this did not apply to registrations before 1 October 2009.

The limited partnership form has not been very popular for business and professional purposes, but is used as a vehicle for making investments, because of tax advantages. A limited partnership which is a collective investment scheme not marketed to the public can be designated as a private fund limited partnership (ss 8(2) and 8D), to which some special provisions, advantageous to private equity and venture capital funds, apply.

As limited partners do not take part in the management of the firm and, at one time, could not have their names included in the firm name (so as to avoid suggesting they would be liable for the firm's debts), they are sometimes called 'anonymous' partners. The idea survives in some European languages in which a public company whose members have limited liability is called an 'anonymous company' (for example, *société anonyme* in French, *sociedad anónima* in Spanish).

The Partnership Act 1890 and the general law of partnership apply to limited partnerships, subject to the modifications made by the Limited Partnerships Act 1907.

D.3.3 Limited liability partnerships

The Limited Liability Partnerships Act 2000 introduced a new form of business association called the limited liability partnership (LLP). The relationship between the members of an LLP can be like that of members of a general partnership (see D.3.1). In particular, every member of an LLP is deemed to be an agent of the LLP (s 6). But, when it is registered at Companies House, an LLP is incorporated and so has separate personality (s 1(2)). It follows that the members of an LLP are not directly responsible for its debts, and the law relating to partnerships does not apply to LLPs (s 1(4) and (5)).

CA 2006 is applied to LLPs in modified form by the Limited Liability Partnerships (Application of Companies Act 2006) Regulations 2009 (SI 2009/1804) and the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (SI 2008/1911). Other legislation, including the corporate insolvency provisions of IA 1986, is applied by the Limited Liability Partnerships Regulations 2001 (SI 2001/1090).

D.4 Other types of registered company

D.4.1 Introduction

Chapters 1 to 20 and online resources, Chapters A, B and C deal with the two types of registered company that are most significant for the UK economy and legal practice, the public limited company (plc) and the private company limited by shares. CA 2006 provides for registration of four other types of company, guarantee companies (with or without permission to omit 'Ltd' from the company name) (see D.4.2) and unlimited companies (with or without share capital) (see D.4.3). These are all private companies with separate legal personality, but they have different rules governing the financial obligations of members. All relevant provisions of company and insolvency law covered in Chapters 1 to 20 and online resources, Chapters A, B and C apply to them with the exceptions noted in the following paragraphs.

A public limited company, a private company limited by shares or a guarantee company can be formed and registered as a community interest company (see D.5).

D.4.2 Companies limited by guarantee

D.4.2.1 Limitation by guarantee

CA 2006 allows the registration of a private company limited by guarantee (usually known as a guarantee company). Unlike a company limited by shares, a guarantee company does not have a share capital. Instead the financial obligation of members is to contribute a fixed amount if the company is wound up when it is insolvent.

A company limited by guarantee is defined as a company whose members' liability is limited by its constitution to such amount as they undertake to contribute to the assets of the company in the event of its being wound up (CA 2006, s 3(1) and (3)).

When registering a company limited by guarantee, a statement of guarantee must be delivered with the application for registration (s 9(4)(b)) and is one of the company's constitutional

documents (s 32(1)(g)). The statement of guarantee must, by s 11, state that each member undertakes that, if the company is wound up while they are a member, or within one year after they cease to be a member, they will contribute, to the assets of the company, an amount not exceeding a sum specified in the statement of guarantee. The contribution is to be made for the payment of the debts and liabilities of the company, and of the costs, charges and expenses of winding up and for the adjustment of the rights of the contributories among themselves. IA 1986, s 74(3), confirms that in the case of a guarantee company, 'no contribution is required [when the company is wound up] from any member exceeding the amount undertaken to be contributed by him to the company's assets in the event of its being wound up'.

The limit on the liability of a member of a company limited by guarantee is the amount specified in the statement of guarantee.

The total amount that members of a guarantee company are liable to contribute under its statement of guarantee is sometimes called the company's 'guarantee fund'. A guarantee company does not have any contributed capital while it is a going concern—the guarantee fund comes into existence only when the company is wound up—and this is usually considered inappropriate for a business enterprise. Accordingly, guarantee companies are usually formed only to undertake charitable objects or to carry on some non-commercial undertaking.

A member of a company limited by guarantee knows that liability to contribute to the assets of the company under the guarantee is limited to a certain amount which the member has agreed with the company. Parliament has not put any restrictions on what that amount must be, and in practice it is usually nominal—typically it is £1.

Model articles of association for a private company limited by guarantee are set out in the Companies (Model Articles) Regulations 2008 (SI 2008/3229), sch 2. These are the default articles, which apply unless other articles are registered (CA 2006, s 20).

D.4.2.2 Omission of 'limited' from the name of a guarantee company

CA 2006, s 60, permits registration of a company limited by guarantee with a name that does not include the word 'limited' or its Welsh equivalent, provided the company is a charity and complies with regulations made under s 60. Those regulations are included in the Company, Limited Liability Partnership and Business (Names and Trading Disclosures) Regulations 2015 (SI 2015/17). They restrict the exemption to not-for-profit companies that limit their objects to the promotion or regulation of commerce, art, science, education, religion, charity or any profession (reg 3). Companies House must be provided with a statement that the company meets the conditions for exemption (CA 2006, s 60(2)), which Companies House may accept as sufficient evidence of the matters stated in it (s 60(3)). Guarantee companies exempted under more wide-ranging provisions of previous legislation continue to be exempted if they satisfy relevant conditions (ss 61 and 62).

The Financial Conduct Authority (FCA) is a company limited by guarantee. It is exempt from the requirement to have the word 'limited' at the end of its name (Financial Services and Markets Act 2000, sch 1ZA, para 17), unless the Secretary of State removes the exemption because of action taken by the FCA which makes it no longer appropriate (para 18).

D.4.2.3 Hybrid companies

It was possible before 22 December 1980 in Great Britain (1 July 1983 in Northern Ireland) to register a company limited by guarantee with a share capital (known as a 'hybrid' company). Hybrid companies in existence on that date continue in existence as hybrids but no new hybrid

company may be registered (CA 2006, s 5). It was possible for a hybrid company to be a public limited company and any such company can continue to be a plc (s 4(2) and (3)).

D.4.3 Unlimited companies

It is possible to register a company under CA 2006 with a constitution which does not limit the liability of its members and such a company is called an unlimited company (s 3(4)). The unlimited liability of a member of an unlimited company arises only if and when the company is wound up insolvent.

Membership of an unlimited company is not based on holding shares in the company but an unlimited company may have a share capital, which will be capital contributed for the company's day-to-day operations. An unlimited company's shares are not required to have nominal values, because they do not measure a shareholder's liability to the company (s 542(1) applies only to limited companies). So an unlimited company, unlike a limited company, can issue no par value shares.

An unlimited company cannot be registered with a name ending 'Ltd' or 'plc' (Company, Limited Liability Partnership and Business (Names and Trading Disclosures) Regulations 2015 (SI 2015/17), reg 6).

There are no default model articles of association for unlimited companies, so articles must be drawn up for any unlimited company when it is registered.

An unlimited company is exempt from the requirement to deliver accounts to Companies House and can therefore keep its financial affairs confidential in the same way that a partnership can (CA 2006, s 448(1)). To prevent avoidance, an unlimited company cannot claim this exemption if at any time during the accounting reference period for the financial year being reported on (s 448(2)):

- (a) the company has been, to its knowledge, a subsidiary undertaking of an undertaking which was then limited;
- (b) there have been, to its knowledge, exercisable by or on behalf of two or more undertakings which were then limited rights which if exercisable by one of them would have made the company a subsidiary undertaking of it; or
- (c) the company has been a parent company of an undertaking which was then limited.

The exemption for unlimited companies does not apply to a banking or insurance company or to the parent company of a banking or insurance group (s 448(3)(a)).

The exemption also does not apply to an unlimited company if each of its members is a limited company, or is an unlimited company or Scottish firm whose members (or in the case of a Scottish limited partnership, its general partners) are all limited companies (s 448(3)(b)). The references to UK forms of business organisation are to be interpreted as including any comparable undertaking incorporated in or formed under the law of any country or territory outside the United Kingdom.

When the minimum number of members for private companies was reduced from two to one, the reduction did not apply to unlimited companies (see 3.3.4.2). CA 2006 reduced the minimum to two for all companies, but it was forgotten to amend s 357 (see 14.12.2), which still applies only to limited companies and should be amended to apply to unlimited ones as well.

D.5 Community interest companies

Under part 2 (ss 26 to 63) of the Companies (Audit, Investigations and Community Enterprise) Act 2004, it is possible to form a company limited by shares, or limited by guarantee without a share capital, as a community interest company (CIC). The registration of a CIC cannot go ahead until approved by the Regulator of Community Interest Companies (s 36), who must be satisfied that the company will satisfy the ‘community interest test’ and is not an excluded company (s 36(5)(b)). A company satisfies the community interest test if a reasonable person might consider that its activities are being carried on for the benefit of the community (s 35(2)). Excluded companies, which cannot be registered as CICs, are companies which are, or would be when formed, a political party or political campaigning organisation or a subsidiary of such a party or organisation (Community Interest Company Regulations 2005 (SI 2005/1788), reg 6). CICs are subject to limitations on the dividends which they may pay their members.

CICs are governed by CA 2006, subject to the provisions of the Companies (Audit, Investigations and Community Enterprise) Act 2004, part 2 (CA 2006, s 6). The articles of association of a CIC must include the provisions prescribed in SI 2005/1788, paras 7 to 10 and sch 1 (guarantee company without share capital), sch 2 (company limited by shares or hybrid company) or sch 3 (alternative provisions for company limited by shares or hybrid company).

See www.gov.uk/government/organisations/office-of-the-regulator-of-community-interest-companies.

D.6 Re-registration to change the classification of a registered company

D.6.1 Introduction

CA 2006, part 7 (ss 89 to 111), provides procedures for a company registered under the Act to change its classification by re-registering. When a company changes classification from public to private or vice versa, or from limited to unlimited, or vice versa, a new certificate of registration must be issued because the certificate is required to state if a company is limited (s 15(2)(c)) and if it is a public company (s 15(2)(d)).

The specific procedures set out in CA 2006, part 7, do not cover all the possible changes of status though some changes for which there is no direct procedure can be achieved by two successive re-registrations. For example, a public company can be re-registered as an unlimited company by two re-registrations (see 2.6.2) but there is no procedure at all by which a guarantee company can be re-registered as a company limited by shares (see 2.6.4). In Australia there has been controversy over whether a court-sanctioned arrangement with members (the UK provisions for which are in CA 2006, ss 895 to 901) can be used to effect a change of status for which there is no specific statutory procedure. In *Windsor v National Mutual Life Association of Australasia* (1992) 106 ALR 282 a full court of the Federal Court said that the specific procedures are the only ways of changing status. In *Australian Securities Commission v Marlborough Gold Mines Ltd* (1993) 177 CLR 485 the High Court of Australia would not go that far but held that there was a legislative intention that the particular change of status desired by the company—from limited to no liability—should not be carried out at all. The Company Law Review Steering Group recommended creating procedures for three further changes of status—public to unlimited, private

company limited by shares to guarantee and limited by guarantee to limited by shares (*Modern Company Law for a Competitive Economy: Final Report*, vol 1 (URN 01/942) (London: DTI, 2001), paras 11.11 to 11.15). CA 2006 has provided a procedure for the first of these (ss 109 to 111), but the government decided there was insufficient need for the other two.

D.6.2 Change from being a public company

For re-registration of a public company as a private limited company (either limited by shares or limited by guarantee) under CA 2006, ss 97 to 101, see 3.4.4.3.

A public company may re-register as an unlimited private company with a share capital under CA 2006, ss 109 to 111. All members of the company must have consented to this form of re-registration (s 109(1)(a)). This form of re-registration is not available to a company which has already had a re-registration to change from unlimited to limited or limited to unlimited (s 109(2)).

A public company limited by guarantee with a share capital (a public hybrid company) may re-register under s 97 as a private limited company or under s 109 as a private unlimited company, but must give up its hybrid status and choose between having a share capital or being a guarantee company.

There is no express provision for a public hybrid company to become a public company limited by shares. In principle this could be achieved by first re-registering as a private company limited by shares and then re-registering again as a public company under s 90 (see D.6.3), but this is unlikely to be a practical possibility because shareholders would lose the marketability of their shares in the interval between re-registrations without being certain that a special resolution for the second re-registration would be adopted.

D.6.3 Change from being a private company limited by shares

For re-registration of a private company limited by shares as a public company under CA 2006, ss 90 to 96, see 3.4.4.1.

A private limited company may, with the consent of all its members, re-register as an unlimited company (either with or without a share capital) under ss 102 to 104. Having changed from limited to unlimited, a company cannot change back again, to become either a public limited company (s 90(1)(b) and (2)(e)) or a private limited company (s 105(1)(b) and (2)).

Although a public company limited by shares may be re-registered as a company limited by guarantee (though it must be as a guarantee company without a share capital: s 97(3)), there is no express provision under which a private company limited by shares can become a company limited by guarantee. However, it seems that this change can be achieved by first re-registering the private company as a public company under ss 90 to 96 and then re-registering again as a private company limited by guarantee (see D.6.2).

D.6.4 Change from being a private company limited by guarantee

A private guarantee company may be re-registered as an unlimited company under CA 2006, ss 102 to 104 (see D.6.3).

There is no provision for a guarantee company without a share capital to become a company limited by shares. It cannot become a hybrid company (s 5(1)) and it is forbidden from re-registering as a public company (s 90(1)(b) and (2)(a)). It could re-register as an unlimited company but could not then re-register again as a limited company (ss 90(1)(b) and (2)(e) and 105(1)(b) and (2)).

D.6.5 Change from being a hybrid private company

A private hybrid company can be re-registered as a public company or as an unlimited company (see D.6.3) but there is no express provision for a private hybrid company to become a private company limited by shares (though this could be achieved by first re-registering as public and then re-registering again as a private company limited by shares). A private hybrid company could become a pure guarantee company by reducing its share capital to zero under the procedure described in 10.7.

D.6.6 Change from being an unlimited company

An unlimited company with a share capital may, if its members adopt a special resolution (which requires a 75 per cent majority; see 14.4.3), re-register as a public limited company under CA 2006, ss 90 to 96 (this must be a company limited by shares: s 90(4)). An unlimited company, with or without a share capital, may, following a special resolution, re-register as a private limited company (either limited by shares or by guarantee) under ss 105 to 108. Having changed from unlimited to limited, a company cannot change back again (s 102(1)(b) and (2)). An unlimited company cannot be re-registered as a hybrid company (s 5(1)).

D.6.7 Change to or from being a community interest company

Any limited company (including a hybrid company) can become a community interest company (CIC) under the Companies (Audit, Investigations and Community Enterprise) Act 2004, ss 26(2) and 37 to 40A. A special resolution is required (s 37). A dissentient minority of at least 15 per cent may apply to the court for cancellation of the resolution (s 37A) under a procedure like that for objecting to a change from public to private company status (see 3.4.4.2).

As CICs must be limited companies, a CIC cannot re-register as an unlimited company (s 52(1)).

A CIC can become a company that is not a CIC only if it becomes a charity under ss 54 to 55A. A special resolution is required together with approval by the Charity Commission and the Regulator of Community Interest Companies. A dissentient minority of at least 15 per cent may apply to the court for cancellation of the special resolution.

D.7 What can be learnt from this chapter

D.7.1 Summary

Chapter D has briefly described various general-purpose legal forms for carrying on business other than the plcs and private companies studied in the rest of *Mayson, French and Ryan on Company Law*. Legally, the simplest form is sole proprietorship (or self-employment). Two or more persons carrying on a business or profession in common with a view of profit are in partnership, which is governed by the Partnership Act 1890. Sole proprietors and business partners have unlimited liability for the debts incurred in carrying on their business or professional activities. Partnership has developed into the sophisticated form of the limited liability partnership with, as the name says, limited liability, and governed by modified company law rather than

partnership law. CA 2006 permits registration of various types of company in which membership is not based on shareholding and members either have limited liability (guarantee companies) or unlimited liability (unlimited companies). Any type of limited company can be a community interest company if its activities are being carried on for the benefit of the community. The various types of company registered under CA 2006 can be re-registered as other types.

D.7.2 Legal concepts

- Sole proprietor
- Partnership
- Limited partnership
- Limited liability partnership
- Company limited by guarantee (guarantee company)
- Unlimited company
- Community interest company

D.7.3 Points of law

- A company limited by guarantee can omit the word 'limited' from its name under certain conditions (CA 2006, s 60).
- An unlimited company does not have to file accounts under certain conditions (CA 2006, s 448).

D.8 Further reading

- D.3.1 G Morse, *Partnership and LLP Law*, 8th edn (Oxford: OUP, 2015) (leading textbook on partnership law which now also covers limited liability partnerships); R l'A Banks, *Lindley & Banks on Partnership*, 20th edn (London: Sweet & Maxwell, 2017) (the practitioners' textbook first published 1860).
- D.3.2 C Morris, 'The private fund limited partnership: the reform company lawyers have been waiting for?' (2017) 38 Co Law 192 (private fund limited partnerships).
- D.3.3 G Morse, *Partnership and LLP Law*, 8th edn (Oxford: OUP, 2015) (leading textbook on partnership law which now also covers limited liability partnerships); G Morse et al, *Palmer's Limited Liability Partnership Law*, 3rd edn (London: Sweet & Maxwell, 2017) (for practitioners).
- D.4.2 D Hooker, 'Structural integrity' (2017) 161 (20) SJ Charity and Appeals Suppl 15 (advantages and disadvantages of the guarantee company format for charities); M Mullen and J Lewison, *Companies Limited by Guarantee*, 4th edn (Bristol: Jordans, 2014) (for practitioners).
- D.5 K Engsig Sorensen and M Neville, 'Social enterprises: how should company law balance flexibility and credibility?' (2014) 15 European Business Organization Law Review 267 (comparison of CICs with equivalents in Denmark and the USA, discussing how they can be made attractive to entrepreneurs and investors while having the character of a social enterprise).