



Building Your Business

Practical tips for professional athletes starting a business

Starting a business can help you generate income and establish a career beyond professional sport. It enables you to explore your personal interests, use your skills and experience, and have a wider social impact.

In this document, we've set out some practical tips for athletes on the factors to consider when starting a business, including:

- Structuring the business
- Getting investment
- Employing people
- Entering into contracts
- Managing property
- Complying with tax and accounting rules.

Structuring the business

What are the different business structures?

Businesses can be set up in various ways. Here are the main structures to think about:

- **Sole Trader** - Minimal set-up and administration mean operating as a sole trader is common for new businesses. There's more personal risk as the individual is liable for all the business' debts.
- **Partnership** – Similar to the Sole Trader structure, except that there are at least two of you. A partnership is flexible and simple, but involves high personal risk as the partners are liable for all the partnership's debts.
- **Private Limited Company (Ltd)** – Personal risk is minimal because the company is an entity in its own right, separate to the owners. This is known as **limited liability**.

Company profits are taxed at 19%, which is another benefit. Setting up a Private Limited Company comes with increased filing and accounting duties.

- **Limited Liability Partnership (LLP)** – Similar to a partnership, but comes with limited liability which reduces the personal risk. This structure involves more filing and accounting duties.

Why do they matter?

Different business structures have different strengths and weaknesses such as:

- Flexibility and administration
- Personal protection
- Tax efficiency
- Growth.

As a result, the business structure you choose will affect the way in which your business develops, pays tax, takes decisions and deals with liabilities.

It's important to structure your business in a way which fits your situation and goals, both now and in the future.

Across all business structures, it's advisable to have clear legal agreements in place. These agreements will help you set out how the business will operate, and detail what each person's key rights and duties are.

Getting investment

What are the options?

You might need to get some funding for your business, either at the outset or during its growth. This is known as **raising capital**.

There are different ways that your business can raise capital. Here are the main options:

- **Debt financing** – This means borrowing money. Often this will be in the form of a loan from a bank.
- **Equity financing** – This means selling shares in your business to investors.

Which is the best?

The different forms of funding have different strengths and weaknesses to consider.

Debt financing is a way to get funding without giving away any control over your business. You continue to run the business and the lender won't get involved on a day-to-day basis.

Debt financing is expensive, though. You'll need to pay the interest amount and repay the loan sum. If the repayment conditions aren't met, the consequences can be severe.

Equity financing is a way to get funding without taking on a significant financial burden. Shares are sold to an investor, meaning the business doesn't need to pay any interest or repay any amount.

Equity financing does mean that some control over the business is lost, and any value created is for all shareholders. As a shareholder, the investor may be able to have

a say in the major decisions made by the business.

The investor may also ask to be appointed as a director, which allows them to be involved in the day-to-day management of the business.

If unsure, seek advice on which form of financing works for you, and make sure there are legal documents in place that protect your interests.

Employment

How do I employ someone?

You may want to engage someone to work for your business, either at the outset or as your business grows. You can engage someone in different ways:

- **Self-employed or contractor** – Someone who runs their business for themselves, and takes responsibility for their success or failure.
- **Employee** – Someone who works under a contract of employment.
- **Worker** – Someone employed on a more casual basis. They usually have a "contract for services", are required to do the work personally, and have very little obligation to receive or do work but do the work they agree to.

The basis on which you employ someone helps determine their rights and your responsibilities to them. Employment status is detailed and can be complicated to confirm.

On the first day of employment, employees must be given a statement of certain terms and conditions of their employment.

Seek specialist advice if you're unsure about someone's employment status and your responsibilities to them.

What else should you be thinking about?

Businesses must comply with various duties when employing people. These are related to key areas such as:

- Discrimination
- Holiday pay, sick pay and other special leave
- Tax

- Redundancy
- Termination of employment.

It's important to be aware of your responsibilities in these areas. Seek specialist advice if you're unsure.

Tax and accounting

You or the company must pay tax on the business profit, which is the income minus allowable costs. The structure options have their own tax and accounting obligations:

- **Sole Trader and Partnership** – You must file a tax return with HM Revenue and Customs (HMRC) by 31 January each year to include your Sole Trader profit or share of the Partnership profit. The Partnership must also file its own tax return with HMRC.

Income tax is charged at varying rates which depend on your other income (current maximum 45%), and national insurance is also payable. Payments are due in January and July each year.

- **Private Limited Company (Ltd) and Limited Liability Partnership (LLP)** – A company and LLP must prepare formal accounts each year which are filed with Companies House and HMRC, and are available to the public. A corporation tax return must also be filed with HMRC.

Corporation tax is payable on the company's profit (currently at 19%). Filing dates and tax payment dates vary depending on the company year end.

Commercial Considerations

Intellectual Property ("IP") - This covers any original ideas, designs, names, products or creative work produced by an individual, group or business. Almost all businesses will have some form of IP and it's important to protect that IP so that it cannot be copied or stolen. IP is also a business asset which can provide a stream of revenue if properly protected. You can protect your IP by:

- Registering a trademark or patent
- Registering your domain name
- Entering into confidentiality or non-disclosure agreements with employees (or anyone with access to confidential information)

- Including a clause in employees' contracts which states who owns the IP

Terms and conditions - Before your business starts trading, it's important to have some terms and conditions in place which set out the terms on which you will trade. Your terms and conditions should cover key things such as: when contracts can be terminated; the consequences of late payment, the limit of your liability and which country's laws govern the contract.

Property

When setting up your business, it's important to consider where it'll operate from. Depending on the size and nature of your business, you might operate it from your home, an office or a retail outlet.

If operating the business from your home, you should ensure you have permission to use the property for business purposes. Check your title deeds if you own the property, or tenancy agreement if you rent the property to.

Often title deeds will state that the property can only be used as a "residential dwelling". If that's the case, you'll need to apply for permission to use the property for your business.

If you intend to operate your business from an office, retail outlet or other similar premises, you should consider whether you wish to licence, lease or buy the property.

- **Licensing** is typically suitable for small businesses or start-ups. It can be cheaper, and provides maximum flexibility, with the ability for short agreements and easy termination. On the other hand, licensing provides minimum security.
- **Leasing** is common as it provides greater security, with longer agreements available. On the other hand, leases are less flexible, and often include restrictions on how you can use the property and obligations to keep it in good repair.
- **Buying** a property provides the greatest security but least flexibility. A business may buy property as a long-term investment.

How we can help

We give legal support to high-profile sportspersons, sports clubs and governing bodies. Our specialist lawyers in our Sports and Media and Entertainment Teams can help with all aspects of building and growing a business.

For further information about our services, please speak to Thomas Barnard.



Thomas Barnard

Senior Associate

+44 (0)1293 742777

+44 (0)7425 626 237

thomas.barnard@irwinmitchell.com