Compare the sole trader and limited companies

Business, Company

In the modern society, business is absolutely important because it could gain the profit and be satisfied for individuals, therefore, numbers of business entities are operated in the business activities and two essential entities are widely used, they are sole traders and the limited liability companies, so that compare their similarity and difference are necessary and it will be done in this essay. According to Bendery & Hussey (2004), the sole trader is that the person who carries on business alone with a view to making profit and gaining benefit, but also bears any losses and risks, which means he or she will be responsible for business totally.

On the other hand, the limited liability companies could be defined as the legal entity that is separate from the owners, who are known as the shareholders of company and their liability is limited when they invest amount of money to do business (Bendery & Hussey, 2004). About their similarity, both of sole trader and limited liability companies do significant contributions to the GDP for one country, because the main income of government comes from the tax, and both of them need to tax to the government every year.

For example, about 78% income of the GDP of China comes from these two entities through tax in last year while the total tax income was £ 11074 (national tax depart of China, 2012), so it cloud be found that tax of both sole traders and limited liability companies occupied a large proportion in the whole tax income in China. However, sole trader and limited liability companies have the differences because they are the different entities after all. To start with, the organizational structure is quite different.

Obviously, the structure of most sole trading business is simple with low investment (Conwell &Sutherland, 2005) and owner controls the business and manage all the operations all time, he or she acts as the manager, financier and risk bears (Maheshwari, 2005), and most importantly, very few or either no employees in sole trading business, nowadays, about 3. 7 million sole trading in the UK, and around 2. 3 million of them are sole trader with no employees, stated by Conwell &Sutherland (2005).

In contrast, the and limited liability companies have the complex structure, the owners are no just one like the sole trader, there are more than two owners and they are shareholders of the company, they usually do not manage the operation directly because the professional manager will be employed by them, and the company has different departments to deal different business, such as marketing, human resource, finance and IT.

Meanwhile, the different structures will take different operate ways, so the anti-risk ability is quite different. To be honest, Limited liability companies usually huge and have enough capital to operate and they also have the support by banks, although they have debt. It means that they have enough ways to face the crisis and risk. However, the sole trader shares all the benefit but also bear all the risk by himself, which means that it may be bankrupt or be difficult to operate during the financial crisis.

In conclusion, sole trader and limited liability companies are two different types of entities because they have different operated structures and the anti-risk abilities, whereas, both of them make contribution to the GDP for one country, therefore, they are the most important parts for the economic activities and business.