

How Should I Trade as a Franchisee?

On the RiverView Portfolio website we have a section dedicated to Starting in Business and within that we address some of the topics that influence the decision of how a new business should trade. There are two basic options, either you will trade as a self-employed person (alone or in a partnership) or as a limited company.



As a franchisee there are other factors to bear in mind, and these particularly relate to the tax deductibility of the franchise fee.

We don't propose that anyone reading this information sheet should need an accounting degree, so we'll keep the detail as light as possible here, but do contact a Consultant Accountant at RiverView Portfolio Ltd for any additional advice or information that you want.

The short explanation is that within the franchise fee, there are several components including costs for the capital assets, training and stationery, but a significant part of the fee is for goodwill – this is the right to use the name, brand and systems of the franchisor.



Except in the most exceptional of cases, the goodwill can be written off (and therefore becomes tax deductible) over the life of the franchise (usually five years) if you trade as a limited company but if you trade as self-employed this goodwill cannot be written off against your income tax and might not even be able to be written off against capital taxes.

So why might you not trade as a limited company. Some franchisors require that all their franchisees are self employed. The reason for this is that as a self-employed business, you are personally liable to pay the franchise debts and fulfill the obligations; where a franchisor is content that you trade as a limited company you will probably be asked to sign a guarantee but this will not place you in any worse position than if you'd merely signed the franchise agreement personally.

The limited company must be formed before you commit to the franchise, so the franchise is purchased in the company name and not yours personally. So how do you go about forming the company; please do not think that it as simple as just going on line and forming a company. These sites offer no advice or support, so why would you make such a momentous decision without advice. So the answer as to how the form the company is to seek advice from professionals such as RiverView Portfolio Ltd.