

# BUSINESS STRUCTURES

GEARING UP FOR  
2010



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DETERMINING WHAT TYPE OF LEGAL structure will suit your enterprise best is as important as drawing up a business plan.

The types of structures available include Sole Proprietor, Close Corporation (CC), Private Company, Public Company, Partnership and Business Trust.

Many of us seem to act on what we've heard through the grapevine in this regard, not bothering to find out exactly what the structures imply, yet each impacts differently, affecting the taxes you pay, the extent of your liability and ownership succession.

The structure you adopt will be determined by the nature of your business and its resources. Factors to consider are what it will cost you to set the business up, its tax implications, the expense of administering it, and the financial liabilities it will put you under.

If one of your employees causes an accident in which a guest is injured, can the person sue you and take your house, car, or savings account? Are you paying more taxes than you should on your business income? Many small business owners ignore important questions like these, yet the answers lie in the business's legal structure.

It is therefore important to thoroughly investigate the advantages and disadvantages of the different

The most popular structures are Sole Proprietor (or Sole Trader), CC and Private Company. Here's what the first two entail:

## Sole Proprietor

This is the simplest form of business and the easiest to set up and get going. It's best suited to businesses like B&Bs that are not asset driven but service-driven and where the owner is the sole employee. You simply start trading as yourself, e.g. Joe Bloggs trading as Blueberry Bed & Breakfast. The biggest risk is that if the business fails, its creditors can take all your assets – your house, your car, your furniture – because you are the business. On the tax front, you are taxed as an individual, so the more the business earns, the more tax you pay.

## Close Corporation

This is the cheapest, quickest and easiest way to set up a formal business as a separate legal entity. Registration is simple and the costs involved are under R400. For information and downloading of the relevant forms, visit the website of the Companies and Intellectual Property Registration Office (CIPRO), [www.cipro.co.za](http://www.cipro.co.za).

An important consideration is the name you want to give the business. You'll have to submit a few in case your first choice already exists.

You are the owner of the CC, but the CC itself is the 'legal person' who'll receive the income and pay suppliers. So if it goes broke, you will not be liable for its debts (unless you've traded recklessly or fraudulently, signed sureties or owe the taxman). This means that in most cases you'll keep your house and car. The tax benefits are that you can keep retained earnings in the business and delay tax payment.

These examples should give you some idea of how important it is to become thoroughly acquainted with the advantages and disadvantages of the different types of business structure before choosing one for yourself. □

## IT'S ESSENTIAL TO INVESTIGATE THE RIGHT LEGAL STRUCTURE FOR YOUR BUSINESS

structures. Get help from a business advisor, accountant or lawyer if necessary, asking them what this or that structure will demand of you as a business owner.

Whichever structure you choose, be aware that you'll have to register for income tax, VAT, UIF, COID and PAYE, and also apply for certain licences, depending on the industry you're in, the size of the business and whether you are employing staff.

# THE COST OF GETTING GOING

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SO OFTEN WE HAVE DREAMS AND IDEAS FOR our business, only to be brought down to earth with a thud when we start looking into the start-up costs.

Funds are needed for the initial capital investment, plus at least the first six month's working capital.

Start-up costs include all expenses from day one, such as legal fees, registration fees and cost of stationery, to name but a few. The tourism and hospitality industries are seasonal ones and this needs to be taken into account too. Your business could be affected by school holidays, the weekend trade, and/or the weather at any time of year.

Take the time to research a similar business to get an idea of the costs involved. Make provision for price increases based on the inflation rate, and be aware that there will almost certainly be hidden costs that could hold your business back if you don't make provision for them.

Typical monthly operating expenses include: rental or bond repayments, website hosting, email and Internet access, loan repayments, salaries and wages, membership fees for industry associations, marketing and advertising, insurance, VAT payments, transport and fuel, office supplies, cleaning materials, commissions, recruitment fees, bank charges, maintenance costs, interest fees.

## FAILING TO CONSIDER ALL THE START-UP EXPENSES COULD SINK YOUR B&B BEFORE IT EVEN SETS SAIL

A number of 'financial' items need to be calculated and understood. Examples are mark-up percentage, gross profit percentage, expenses percentage, and net profit percentage. If necessary, ask business advisors for help with these.

Various funding options are available to tourism operators. A handbook, *Funding Programmes For Tourism Businesses*, drawn up by the Department

of Environmental Affairs & Tourism in conjunction with industry players, provides information on these and can be downloaded from the Internet. Go to [www.elfasco.co.za/Funding-Programme-Handbook.pdf](http://www.elfasco.co.za/Funding-Programme-Handbook.pdf)

Here's a brief summary of the organisations and programmes involved:

- Department of Trade and Industry: Small Medium Enterprise Development Programme (SMEDP). A cash grant incentive scheme for new or growing tourism projects. Call 012 310 1288/1279 or email [enterprise@dti.pwv.gov.za](mailto:enterprise@dti.pwv.gov.za)
- Development Bank of South Africa (DBSA). The DBSA supports investment in attractions (natural, cultural or man-made), facilities and services (e.g. accommodation), transport (air, road, water, rail), supportive services (e.g. safety, information), enabling infrastructure (e.g. transportation, telecommunication, water), and institutional infrastructure (e.g. education and training). Call 011 313 3269.
- Industrial Development Corporation (IDC). The IDC's Tourism Business Unit finances capital expenditure in tourism businesses, but especially those offering accommodation. Call 011 269 3509 or visit [www.idc.co.za](http://www.idc.co.za)
- KhulaEnterprise Finance. Khula facilitates access to finance for people who cannot provide the collateral security required by banks. Call 011 315 0036/7.
- Community Public Private Partnership Programme (CPPP). The CPPP aims to involve rural communities in economic activity and tourism is one of the industries that it looks at. Call 011 313 3065.

Finally, take stock of your business by implementing procedures that will give you the data you need to regularly assess its performance. Examples include the monthly occupancy figures and monthly receipts and expenditure from all sources.

Remember that it is easier to cut costs than increase returns – and that not having sufficient cash flow could shatter your dreams. □