Holding the man pdf

As your small businesses grow, you will have to think about the best legal structure to support your long-term goals. First you can decide to include your business. The main advantage of inclusion is to protect you from personal liability for any debts that your company owes. The next logical step is to add a holding company to own your business as long as you own the holding company's shares. This entity has a number of potential advantages, mainly related to risk management and tax deferral. The holding company does not start its own activities, but holds shares in other companies and is therefore influenced or controlled by them. A holding company is essentially a company which holds the assets of another company. An undertaking located in the industry is an undertaking that sells goods or provides services and deals with members of the public. On the other hand, the holding company does not produce any goods or services or deal with any of them. It acts only as a bank and administration operating company. The term holding company stems from the fact that the company has one job: to hold the assets of another corporation. These assets may include shares in shares, real estate, patents, copyrights, brand names or anything else in value. Let's say you're a small business owner who has become relatively successful and has created some unallocated profits for your organization, XYZ Company. If you leave this profit to XYZ, then they are fair game creditors if the business ever gets sued or will reduce the offenders on their debts. For example, if you made $300,000 last year, you could potentially lose money if the company goes bankrupt this year. At the same time, you don't want to pull $300,000 from XYZ as income, especially if you plan to re-invest some of it into the business over the next couple of years. If you take profits now, you end up paying personal income tax on all the money at once. This leaves you with a dilemma: You don't want to save money in your business, but you also don't want to flow it out as income. The solution here is to create a holding company like one holdco. Holdco will own some or all of the xyz company's shares, but it will not go into any of its daily business operations. Rather, XYZ will remain in force as your business: selling goods, generating profits and indebted. The holding company you are set up can now receive a profit stream from XYZ as dividends that are allowed to be made tax-free. So, you can pull money out of XYZ while postponing tax liability. Holdco, however, is not liable for XYZ's debts. If the creditor is sued because your product is faulty, he can only sue the entity that created or sold the product that is XYZ. Since XYZ owns very few assets - you have transferred them you protect your capital from your creditors. In a typical structure, an operating company transfers legal ownership of the company's most valuable assets to a holding company. Holdco will then sell or lease these assets back to the operating company. Nothing changes on the ground. Your business company or Opco (XYZ Company in the above example) still has access to real estate, vehicles, machines, patents and other assets needed to run the business. Regardless of the business you do, each operating company is at risk of financial liability, lawsuits or bankruptcy. However, if you send to the holding company, the assets are protected. This is because they do not belong to an operating company that goes bankrupt or is being sucked in. Legally, holding companies and subsidiaries are separate. This means that the holding company is not liable for Opco's activities or debts. When the creditor comes knocking, you can reasonably say that Opco has no money because all the assets are owned by Holdco. Creditors cannot get to Holdco through Opco because they are completely separate companies. In many cases you can install a new Opco very quickly. This gives the business a much better chance of surviving after an unfortunate event. Ideally, your business will make a profit to distribute to your shareholders. You, as a shareholder, probably don't want to receive this money personally because it would trigger personal income tax liability when tax time rolls around. On the other hand, if you have a holding company, the dividends paid to Holdco will, for the most part, be tax-free, as long as the holding company holds at least 80 per cent of Opco's shares. Opco will pay corporation tax on its profits, but the tax payable by the shareholder is essentially deferred until Holdco decides to pay dividends to its shareholders. In other words, when you move money from Opco, the money sits in Holdco with no tax impact. You can then decide to keep the money in Holdco and reinvest it in the company, or you can withdraw it as a dividend distribution of Holdco and pay tax liabilities in the future. The benefit here is that you control the timing of the dividend payment. As long as you have properly structured Holdco, there is no tax event when Opco flows dividends to holdco. In addition to proofing creditors and tax deferrals, setting up a holding company may give you some additional benefits. Running a Multiple Companies Holdco/Opco structure is useful if you have multiple companies or you are thinking about getting additional companies and these companies need to share assets such as real estate, trademarks, patents and vehicles. A holding company may own these assets and then lease or sell them to different operating companies on commercial or favourable terms, depending on what the company wishes to achieve. This is important you are using a qualified accountant when hiring assets at Opcos, as the rules can be complicated. Make Business More Marketable Yes that Opco trades from an expensive piece of real estate that it owns. You would expect Opco's book value to be much higher than if Holdco owned the real estate and rented it to Opco. Since the carrying amount is taken into account when calculating the sale price, a high book value could deter buyers, such as employees or family members, who have limited borrowing capacity. Keeping valuable assets from Opco can make the business more marketable when the buyer is really only interested in buying the true business assets that are essential for operations. Reuniting and Transferring Family Wealth Imagine trying to give shares to multiple companies, rental properties and other assets for each of your grandchildren. It would be a logistical nightmare. It is much easier to issue shares in a holding company so that your beneficiaries indirectly own a share of everything. A parent company is not the same as a holding company for one big reason: Parent companies can conduct their business. It is quite possible that there is an operational enterprise that serves as one or more subsidiaries operating. Holding companies, on the other hand, do nothing. They only exist to hold shares. Outside of this difference, there really is no significant difference between the two units. Because it does nothing, the holding company can really only make money in four ways: Receives dividends from subsidiaries in which it owns shares Lend money to its operating company and earning interest on loans of Leasing assets or real estate, so that the operating company Sell shares holding company can simply take money from its subsidiaries operating in the companies and cannot carry out activities such as investments or operations. All revenue-related activities, such as sales, must be performed by a service company. That's the key. If a holding company engages in these activities, it will pierce the corporate veil. The veil piercing essentially removes the liability protection of the holding company and can therefore be sent for the debts of the operating company. The main drawback is the extra layer of complexity you present when you add another company to the company's heap. Just said, it's another possibility of error. You will need to carefully maintain the holding company's balance sheet, ownership of assets, records and bank accounts separately from Opco accounts. If the lines blur, there is a risk that the courts will declare your Holdco bogus. If, say, Holdco and Opco have the same board, or Opco never interferes with board meetings, the creditor could argue that both companies are the same. In such a case, the holding company may be liable for creditors' claims. Since holding company structure consists of at least two companies, you need to set up two corporations: Holdco and Opco. In most cases, your current business will already be included. Now you will only need to set up one new corporation that acts as a holding company. On the face of it, it is a relatively simple task. You just need to follow the basic steps to start an LLC or corporation in your country. In fact, this process is much more complicated. Usually you can find your Holdco as a company or limited liability company. Whichever one you choose depends on a bunch of factors. What is your personal tax situation? Are you planning to make other owners? How many employees do you have? Are you primarily looking for a tax system, in which case you can set up Holdco in another country? For tax purposes, you must ensure that Holdco purchases at least 80 percent of Opco's stock. This allows you to submit consolidated tax returns, and Holdco can then receive dividends without tax. If Holdco owns only 60 percent of the reserve opco, for example, Holdco would have to pay regular corporate tax on the dividends it received. However, if Holdco holds 80 per cent of the shares, it would not pay tax on dividends under the double taxation rules on the grounds that Opco had already paid tax on its corporate profits once. Bottom line is: When you go down the Holdco/Opco route, be sure to get a good lawyer and accountant on your side. It is extremely important to discuss your specific situation with qualified consultants before you start. Start.