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## The Business Environment

### Sole Proprietorship

Owned and managed by a sole owner

#### Legal requirements

- Established by the registration of the business name number the Registration of Business Names Act.
- Referred to as an ‘Enterprise’ under Ghana business law
- The objective must to run a business activity
- The proprietor must have a Tax Identification Number (TIN) from the Ghana Revenue Authority to be eligible to register the business
- Business registration must be renewed annually

#### Features

- Capital is provided by the sole owner
- The sole owner enjoys all profits and bears entire business risk
- The Liability of the owner is unlimited
- Little delegation of management roles
- Typically small-sized businesses
- Decision-making is quicker
- Income tax is imposed on the owner but not the enterprise

#### Advantages

- Easy to establish
- Greater owner control
- Fast decision-making

#### Disadvantages

- Unlimited liability
- Difficulty in raising funds
- Continuity is uncertain

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Continuity - The business ceases to exist when the owner dies or becomes incapacitated.

## **Partnership**

Jointly owned and managed by two or more individuals up to 20

### **Legal requirements**

- Established by registration under the Incorporated Private Partnership Act
- Referred to as 'Partnership Firm' under Ghana business law.
- A TIN from the Ghana Revenue Authority is required to register a Partnership firm
- Business registration must be renewed annually.
- Partners must notify the registrar of any changes in the firm's name or identify of partners within 28 days of the change.
- The firm must keep proper books of accounts and have the audited.

### **Features**

- Capital is provided by the partners in an agreed ratio
- The partners jointly manage the firm
- The partners share gains and losses in an agreed ratio or per capital ratio
- Typically formed by practitioners of a profession
- Income tax is imposed on the individual partners
- Liability is unlimited and is shared among partners

### **Advantages**

- Better decisions through shared ideas
- Relatively easy to form, compared to companies
- Relatively large capital base, compared to sole proprietorships

### **Disadvantages**

- Unlimited liability even though it is shared amongst partners
- Slower decision-making process as partners must come to a consensus
- Continuity is sometimes uncertain

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## **Company**

At least one person owns the business.

### **Legal requirements**

- Established by registration under the Companies Act.
- Referred to as “Companies” under Ghana business law.
- The objective may be to run a business activity or a not-for-profit venture
- A TIN from the Ghana Revenue Authority is required to register a Company
- Registration must be renewed annually
- Members have either limited or unlimited liability for the debts of the company
- The company must keep proper books of accounts and have the audited
- The company pays tax on profits as the shareholders pay tax on dividends.
- The company must keep a register of members
- The company must hold annual general meetings

### **Types of Company Registrations**

- Unlimited Liability Companies
  - Private Company Unlimited by Shares (PRUC)
  - Public Company Unlimited by Shares (PUC)
- Limited Liability Companies
  - Company Limited by Shares
    - \* Private company (LTD)
    - \* Public company (PLC)
  - Company Limited by guarantee (LBG)

Share - Represents part ownership of a company. Shareholders are paid dividends according to the number of shares they own.

Dividend - A share of the profits of a company paid to shareholders.

Guarantee - A promise to contribute a certain amount of money to the company in the event of its winding up.

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### **Company Limited By Shares**

- Registered with shares
- For profit making
- Liability of a member is limited to the value of shares held, i.e. if the company goes bankrupt, the member will only lose the money invested in shares.

### **Company limited by Guarantee**

- Not registered with shares
- Not for profit making
- Liability of a member is limited to the amount pledged

### **Advantages**

- Members can have limited liability
- The business exists as a separate legal entity
- Relatively easier to transfer ownership
- Ability to raise larger sums of capital
- Unlimited life / No Continuity concerns

### **Disadvantages**

- Double taxation of profit / Tax on profits and tax on dividends
- More demanding regulatory requirements
- More expensive to setup and operate

### **Financing Options**

#### **Sole Proprietorship**

- Owner's capital contribution
- Loans from financial institutions

#### **Partnerships**

- Partner's capital contributions
- Loans from financial institutions

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## **Companies**

- Shareholder's share subscription
- Loans from financial institutions
- Borrowing through issuance of debt instruments

## **The Tax Environment**

Tax is a compulsory levy imposed by the government on transactions, inputs, documents, property and certain activities for the purpose of raising revenue or controlling consumption. Taxes do not present specific entitlement to goods and services

There are two types of taxes:

- Direct Taxes - Imposed on income
  - Investment tax
  - Gift tax
  - Capital Gains tax
- Indirect Taxes - Imposed on goods and services
  - Value Added Tax (VAT)
  - Communication Service Tax (CST)
  - Excise Duties
  - Import (Custom) Duties
  - Petroleum Taxes