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TRUST CAN ONLY BE EARNED

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Hong Kong Sole Proprietorship & Partnership

Sole Proprietorship

Any individual carrying on a business on his/her own behalf will be a sole trader. Sole proprietor is self-employed and pay income tax on the profits made by the business.

1. Advantages
   (1) It is easy and quick to start trading as a sole proprietor as there are no formalities to comply with other than notifying the Tax Authorities;
   (2) The business itself is flexible. Any decisions and changes can be made easily as there is only one person to make the relevant choices;
   (3) All the profits generated by the business will belong to the sole proprietor;
   (4) Sole proprietor own their business and so are able to sell or transfer it as they wish.

2. Disadvantages
   (1) A sole proprietor has unlimited liability. This means that if the business should collapse, the sole proprietor could lose not only the cash and other assets invested in the business but all his/her personal assets as well, to meet the debts of the business;
   (2) As there is only one person with overall responsibility for the success of the business this may increase the pressure on that individual.

A sole-proprietorship is a business firm owned by one person, and there are no partners. The sole-proprietor has absolute say in the running of the business firm. Management rests on that one person and his liability is unlimited.

It is an easy procedure to register a sole-proprietorship. There is no requirement for a sole proprietor to maintain accounts for auditing purposes. For tax purposes, a balance sheet or statement of affairs as at the end of the year and a detailed profit and loss account must be submitted to the tax authorities.

If such a business fails or is declared bankrupt, the creditors can sue the proprietor for all debts incurred. A legal claim can be made against the personal assets of the proprietor.

Partnership

A partnership is made up of more than one person. Partnerships may have between two and twenty partners. Once there are more than twenty partners, the business entity must be registered as a limited company. Generally, all partners have equal rights in the management of the partnership. To avoid possible disputes, it is preferable that a partnership agreement is drawn up.

The liability of each partner is unlimited, it require each partner to repay the debts of partnership by they own assets. A partnership is not a legal entity such that the partnership has to sue or be sued in the names of the partners.

Losses incurred by such businesses can be set off against other personal income such as interest, rental and dividend as well as employment income (if any).

1. Advantages
   (1) Partnerships face fewer statutory controls than limited companies;
   (2) There is no requirement to audit or publish accounts or to register the Partnership Agreement. No returns are required to be made by partnerships, except for income tax;
   (3) The internal structure of partnerships is very flexible. Most of the rules for the structure of partnerships can be overridden if the partners agree otherwise;
   (4) Partnerships can be simple and cheap to set up. There is no requirement to have any written documentation other than a Partnership Agreement;
   (5) Partners owe a duty of good faith to each other. Partners must also account to the partnership for any secret profits that they make from the partnership without the consent of the other partners, including any profits gained from any competing business.

2. Disadvantages
   (1) Partners face unlimited liability for all the debts of the partnership. This means that the personal assets of each partner are at risk;
   (2) Partners are jointly liable for partnership debts. This means that if one partner fails to pay his share of the partnership debt, the other partners must make up the shortfall;
   (3) Any individual partner can be sued for all the debts of the partnership;
   (4) The partnership does not have its own separate legal identity from the partners. Therefore, unless otherwise agreed, the partnership will come to an end each time a partner leaves;
   (5) Expansion of further capital can only be given personally by the individual partners.

If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.kaizencpa.com or contact us through the following and talk to our professionals:

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