



# TYPES OF BUSINESS ORGANIZATIONS IN JAMAICA AND THE BENEFITS OF EACH

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# What is Business Organization?

A business organization is an individual or group of people that collaborate to achieve certain commercial goals. Some business organizations are formed to earn income for owners. Other business organizations, called nonprofits, are formed for public purposes. These businesses often raise money and utilize other resources to provide or support public programs.





# Choosing a Form of Business Organization

One of the first decisions that you will have to make as a business owner is how the business should be structured. All businesses must adopt some legal configuration that defines the rights and liabilities of participants in the business's ownership, control, personal liability, life span, and financial structure. This decision will have long-term implications, so you may want to consult with an accountant and attorney to help you select the form of ownership that is right for you. In making a choice, you will want to take into account the following:





- Your vision regarding the size and nature of your business.
- The level of control you wish to have.
- The level of “structure” you are willing to deal with.
- The business’s vulnerability to lawsuits.
- Tax implications of the different organizational structures.
- Expected profit (or loss) of the business.
- Whether or not you need to re-invest earnings into the business.
- Your need for access to cash out of the business for yourself.



# In Jamaica, several forms of Business Organizations exist. These include:



- Co-operatives
- Industrial and Provident Societies
- Building Societies
- Limited Companies
- Partnerships
- Sole Traderships

An overview of the three basic legal forms of organization: Sole Proprietorship; Partnerships; and Limited Company follows.



# Forms of Business Organizations: Sole Trader



Person trading alone.

## Advantages

No complicated paperwork is required to set up a sole trader business and least expensive form of ownership to organize.

Decisions can be made quickly and close contact can be kept with customers and employees.

All profits go to the sole trader, who also has the satisfaction of building up his or her own business.

Complete control of business and within the parameters of the law, sole proprietors may make decisions as they see fit.



# Forms of Business Organizations: Sole Trader- Advantages Contd.



Sole traders do not have to disclose accounts to the Registrar.

There are no registration or filing requirements unless the business is trading or operating under a business name.

Profits from the business flow-through directly to the owner's personal tax return.

The business is easy to dissolve, if desired.

A sole trader is his/her own boss.





# Forms of Business Organizations: Sole Trader-Disadvantages



## Disadvantages

Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk. If unable to pay debts, a sole trader can lose personal Property. It may be difficult to expand business/get credit.

A sole trader runs the risk of bankruptcy.





# Partnerships:



Defined as, "Persons carrying on business in common with a view to profit". Note that the keyword is "profit".

## Characteristics

Must be in partnership to share profits not just revenues.

Contractually bound by partnership agreement.

Must be at least 2 partners.

Partnership agreement can be made orally or in writing.





## Types of Partners:

General Partner – Actively involved in the day to day running of the business.

Sleeping Partner – Takes no part in running of the business

Limited Partner – This was created by the Limited Partnership Act. A Limited partner is only liable for capital he puts in, as long as he does not take part in the management of the business. There has to be one or more general partners and this must be registered with the Registrar General's Department.

Salaried Partner – Takes a salary, listed on letterhead which means he is responsible for the debts but cannot vote on the running of the firm.





## Advantages of Partnerships:

Does not have to disclose accounts to the Registrar.

No registration or filing requirements unless the partnership trades under a Business Name.

Pooling of skills and experience.

Unregulated - Partners decide how to run business.



## Disadvantages of Partnerships:

Partners are jointly and individually liable for the actions of the other partners.

Profits must be shared with others.

Since decisions are shared, disagreements can occur.

The partnership may have a limited life; it may end upon the withdrawal or death of a partner.



## Disadvantages of Partnerships Contd.

If partners are unable to pay their debts, they can lose their personal property.

Partners run risk of bankruptcy.

May be difficult to exit in event of disagreement.

All partners are bound by contracts made by any one partner (agency).



# REGISTERING YOUR BUSINESS NAME IN JAMAICA



Business names are registered with the Companies Office of Jamaica (COJ) and are placed on the Public Record maintained by COJ for public disclosure. Anyone may search business name information contained on the Public Record for a fee to find the owners or principals behind a business name.



# Who Must Register Under the Registration of *Business Names Act*?



The Registration of *Business Names Act* administered by the COJ applies to:

- Sole proprietorships (one owner) carrying on business under a name other than the individual's name;
- Partnerships carrying on business under a firm name other than the names of all the partners;
- Corporations carrying on business under a name other than their corporate name;
- Individuals or firms that have changed their names

- Traders





# Limited Companies



Governed by the Companies Act 2004.

## Characteristics

A company is owned by shareholders who appoint Directors to give direction to the business. The Chief Executive is the senior official within the company with responsibility for making major decisions. Specialist managers will be appointed to run the company on behalf of the Board. A company is a legal body in its own right with an existence that is separate in law from its owners. The company will thus be sued and can sue in its own name. Shareholders put funds into the company by buying shares.





## Characteristics Contd.

Limited liability is a form of business protection for company shareholders (and some limited partners). For these individuals the maximum sum they can lose from a business venture which they have contributed going bust is the sum of money that they have invested in the company - this is the limit of their liability.





## Advantages:

Limited Liability – only liable for amount outstanding on shares or guarantee.

Perpetual succession – If the members die, the company can keep going.

May be easier to expand.

Company may sue and be sued in its own name.

Ownership can be easily transferred.

Ownership of property-Company owns its property.



## Disadvantages:

Government regulation.

Publicity.

Administration burden.



# Types of Registered Company:



## A. Limited by Shares:

### Characteristics

Members can only lose amount agreed to contribute for shares (limited liability).

Must have “Limited” after its name.

Commonly used for profit making ventures.





## B. Limited by Guarantee:

### Characteristics

Members agree per the Articles of Incorporation to contribute a fixed amount on winding up (no working capital). The amount is specified in the Articles.

Usually non-profit making e.g. schools, clubs and societies.

Companies Limited by Guarantee Without a Share Capital do not have share capital and shareholders.





## C. Unlimited:

### Characteristics

Have to contribute unlimited amount that is required to pay debts in the event of liquidation.

Not popular.

Can be useful to hold assets.

