

# Choosing a business structure

To own and operate a business in Niue you need to choose a business structure. This overview will help you select a business structure that suits your needs.

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## Possible business structures in Niue

Small businesses generally choose one of three business structures in Niue.

### 1. Sole Trader

A sole trader operates a business on his or her own. The trader controls, manages and owns the business and is entitled to all profits but is also personally liable for all business taxes and debts.

Usually a sole trader can establish the business without following any formal or legal processes and can employ other people to help run the business.

Many businesses start as sole traders and then progress to the company structure as the business grows. Others form companies right from the start to take advantage of the protection and other benefits offered by the company structure.

#### Advantages:

- Easy to start and to run
- No registration is required

#### Disadvantages:

- Owners have unlimited liability for all business taxes and debts, putting their personal assets at risk
- Sole traders can lack credibility in the marketplace
- Harder to attract loans and investment
- Harder to sell the business
- The business only lasts the lifetime of the sole trader

### 2. Partnership

Partnerships are most common among professional people and in the farming industry. In a partnership two or more people run a business together. Each partner:

- Shares responsibility for running the business
- Shares in any profits or loss equally, unless the partnership agreement states otherwise
- Is liable for any debt within the partnership

Many partnerships are established with a formal partnership agreement.

Once the standard business structure of professional people (lawyers, doctors and accountants), partnerships are no longer as popular as in the past since the company structure is now open to professionals and arguably offers better protection. A well thought out partnership agreement is essential to cover contingencies and possible conflicts.

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#### Advantages:

- No registration is required to start a partnership
- Can be an effective way to share business operation costs (e.g. several professional people operate out of a joint office)

#### Disadvantages:

- Partners may be liable for debts incurred by other partners
- Putting personal assets at risk
- Possible partnership conflicts
- Possible complications if a partner dies, or wishes to leave the partnership

### 3. Limited Liability Company

A company exists as a formal and legal entity in its own right. It is separate from its shareholder(s) or owner(s) - the person or group of people who own shares in the company). Companies can be registered (incorporated) through the Niue Companies Office.

The limited liability company has proved to be the most popular and successful form of business structure. Companies help foster confidence in businesses by governing the relationships between investors (shareholders), directors and creditors and by giving stakeholders a clearer picture of

who and what they are dealing with.

**Advantages:**

- More credibility in the marketplace
- Easier to attract funds and investment (investors can become shareholders)
- Easier to sell the business or pass it on to others as it is a separate entity
- The shareholders' liability for losses is limited to their share of ownership of the company (except when company directors have given personal guarantees for company debts or where a company has been trading while insolvent or is considered to be 'trading recklessly')

**Disadvantages:**

- Directors need to clearly understand their responsibilities
- Limited liability advantages are often eroded in practice by the need to provide personal guarantees to lenders or creditors