



1. A completed application form (specific to each lending institution)
2. A sound, well-researched and well-presented business plan
3. A business cash flow prediction for 12 or 24 months (more info on this later)

Ultimately, you'll need to convince your chosen institution that your venture is profitable, that the risk can be managed and that it will get its money back with interest. If your application is comprehensive and your business idea looks feasible, the lending institution will probably invite you for an interview to present your plan in person. It may take some time for them to make a final decision, but they'll contact you to tell you whether your application has been successful.

Forms Of Business

Now is the time to decide what form of business to operate. The different forms include:

Sole proprietorship

In this form of business there is one owner under whose name the business trades. No formal documents are required, which makes the new business fairly easy and quick to establish. But sole proprietors don't have limited liability. In other words, the owner's assets are not distinct (separate) from the business and can be attached (taken away) should the business fall into debt or go bankrupt.

Partnership or joint venture

A partnership has a minimum of two and a maximum of 20 partners, each of whom is expected to contribute money, skill or labour to the business. When forming a partnership, a "partnership agreement" is essential. This agreement deals with formation, profit sharing, salaries, banking arrangements, changes of partners, liquidation and partners' responsibilities. Like a sole proprietorship, a partnership doesn't have limited liability; every partner is liable for any debts.

All South African companies are governed by the Companies Act, which lays down the procedures to be followed when forming a private or public company.

The Companies Act is administered by the Companies and Intellectual Property Registration Office (CIPRO), based in Pretoria. Close corporations are governed by the Close Corporations Act, which is also administered by CIPRO.

There are no formal procedures relating to the formation of sole proprietorships or partnerships.

Close corporation or CC

The CC was created especially for small businesses. It relieves them from the complicated requirements and formalities of the Companies Act, while still giving them corporate status and a legal identity that is distinct from their members. Its registration is also simpler and less expensive than that of a company. A CC has a minimum of one and a maximum of 10 owners, requires an accounting officer, and allows its members limited liability provided that sureties (guarantees) have been signed.

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Company

A company has more administrative formalities and legal requirements than any other form of business. There are three types of company:

Public companies are big businesses like Woolworths, Mr Price, Discovery and Putco. They're called "public" companies because they're owned by shareholders (members of the public) and listed on the stock exchange. There must be at least seven members of a public company, with a minimum of two directors.

Private companies can't sell shares to the public and can't list on the stock exchange. Their members are between one and 50. A private company has to prepare audited financial statements but, unlike a public company, is not required to publish them.

Section 21 companies are associations "not for profit". Most non-governmental organisations are Section 21 companies, as their function is primarily developmental.

Business Registration

Once you've decided on the form of your business, you must register it. Registration has several steps, depending on the form you've selected, but usually includes some combination of the following:

- reserving a name;
- lodging a founding statement;
- filing the memorandum and articles of association; and
- filing the written consent of auditors to act for the company.

Legal Issues

Business owners have legal responsibilities like paying taxes, obeying labour law (regulations regarding employees) and obtaining the necessary licences or permits. As an entrepreneur, it'll be your responsibility to know the legal requirements affecting your small business and to understand what your form of business can and can't do according to the law. Depending on the size and type of your business, you may also have to:

- register with the South African Revenue Service for Value Added Tax, company tax and employee tax (more on this below);
- register your employees for unemployment insurance (see Obtain Unemployment Insurance), workers' compensation, a provident fund or a medical scheme (see Obtain Medical Aid).

Other than the above, certain businesses (like import/export businesses or those trading in liquor) require licences or permits. You should also acquaint yourself with common law, occupational safety and labour relations.

Insurance

First, read "Take Out Insurance" in the "JumpStart Your Finances" section of JumpStart for an introduction to insurance, claims and excesses. Then sit down and think about adequate insurance coverage for your business. In other words, ask yourself what you could afford to write off in the event of a disaster, like fire or theft.

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The insurance coverage you choose will make the difference between security against unexpected losses and paying for such losses out of your pocket. If you feel that the risk of loss doesn't outweigh the payment of monthly premiums, then going without insurance may work for you. In most cases, however, a loss can badly hurt a business and the premium cost is worth the peace of mind. Start by taking stock of everything you want protected: equipment, stock, raw materials, buildings, land, fixtures, business interruption or vehicles registered to the business. Decide how much each is worth, should a loss occur. Be realistic. Don't under- or over- estimate!

**Insurance is not really important until a loss occurs.
But you'll need to take an active role in choosing
your coverage beforehand.**

Then decide on the kind of coverage you'll need. What would you like your business to be protected from? Everything possible? Fire? Theft? Loss of income? Who would you like covered? All employees? Full-time employees only?

Finally, choose an insurance broker who will shop around for the best package to meet your needs. Ask about exclusions and conditions which may exist on policies. Most of all, be involved! This way, you'll get coverage that suits you, you'll avoid paying for unnecessary coverage and you'll fully understand the coverage you have.

Taxation

Businesses, like individuals, have to pay tax (see Pay Tax). Profits, wages, salaries, value addition and imports are all taxable.

Become tax-wise and get good advice from the start. Some of the decisions you make when starting your business can't be undone later and you may regret being hasty. Also, get your accounting right. Small mistakes can cause major problems in the long run. Keep meticulous records of all financial and tax affairs for at least five years, so that you're equipped to answer any questions. Being organised will convince SARS that you know what you're doing!

The South African Revenue Service (SARS) provides a Tax Guide for Small Businesses, which spells everything out. You can find it on www.sars.gov.za under "SARS Publications".

NOTE

Mark all due dates for paying tax on your calendar, so that you won't have to pay interest or penalties on outstanding taxes.

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