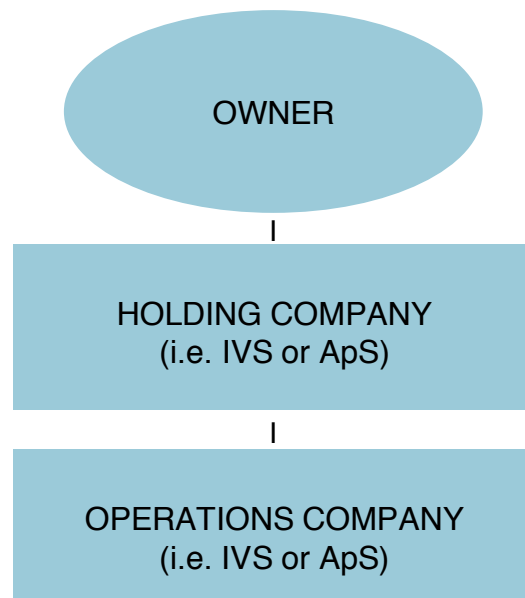


HOLDING COMPANY

A holding company is not a business form as such – rather it is a company, which ‘holds’ one or more other companies. You can use companies as a holding company. You cannot use a personally owned business such as sole proprietorship or general partnership as a holding company.

A holding company usually does not produce goods or services itself; rather, its purpose is to own shares of one or more other companies. These other companies are called operating companies, since this is where the operations of producing goods or services are taking place.

The most common reasons to use a holding company is to reduce the risk for the owners, allow ownership and control of a number of different companies, and to protect the financial profits from the operating companies. It is a quite simple company structure, which in its most basic structure looks like this:



In a situation where there is just one owner, the person therefore owns the holding company, and the holding company owns the operating company. The sole purpose of the holding company is to own the shares in the operating company. There are several advantages of a corporate structure such as this:

- The profit earned in the operating company can be transferred to the holding company without it being taxed.
- The holding company is not liable for the company's debt. That is, if it goes wrong in the operating company, you will not lose the money that is placed to the holding company.
- The holding company may sell its shares in the operating company so that the profits obtained from the sale are not taxed until the profits are distributed from the holding company to the owner or owners.