



LOOKING AT JOINT VENTURES



Many business people would undertake a joint venture if both parties would benefit from pooling their different skills, resources and rights or by sharing costs of risks. A joint venture may be necessary because of the need to include a local participant in the enterprise.

Joint ventures could be set up and structured as a contract, a company or as a partnership. The European Economic Interest Groupings do not make a natural choice although if they are registered in the UK they have a separate legal personality. This does not afford the protection of limited liability. Members have unlimited and several liability for the debts.

BENEFIT

The main benefit of a contractual joint venture is independence. It is not necessary to make structural changes to an existing business. Cheap and simple with less likelihood of participants being made liable to a third party and the arrangement is tax transparent. This form is more attractive to those who wish to be taxed separately and, therefore, avoid problems which may arise when assets are transferred into or out of the joint venture business.

DISADVANTAGE

The main disadvantage is that there is no permanent separate legal entity in which to vest the joint venture assets.

The advantage of a corporate joint venture is that there is a limited liability as the company has a separate legal personality.

However, it is possible to allocate different class rights to participants giving greater facility in raising finance. The main disadvantage of this structure is that it requires stringent procedures to be followed.

EXIT STRUCTURE

It is essential to devise a clear exit structure and valuation of an outgoing participant's shares to avoid any controversy in the future.

