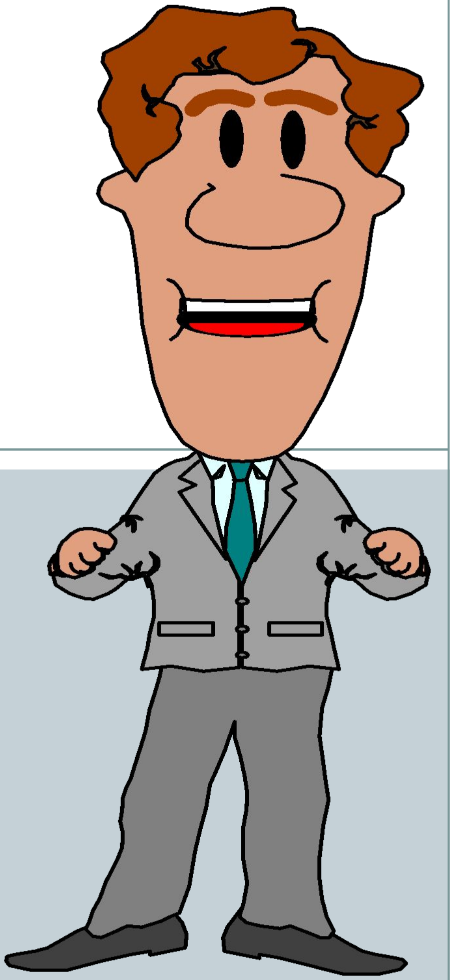

Forms of Business

Forms of business organization

- Sole (Single) Proprietorship
- Partnership
- Corporation
- Co-operative

Sole Proprietorships

- ONE OWNER
- ALL THE ASSETS AND PROFITS ARE ATTRIBUTED **DIRECTLY** TO THE OWNER.
- NO SPECIAL LEGAL REQUIREMENTS.
- OWNER'S EQUITY CONSISTS PRIMARILY OF THE **OWNER'S** CAPITAL ACCOUNT.
- RESPONSIBILITY FOR RUNNING THE BUSINESS, ITS LIABILITIES OR DEBTS

SOLE PROPRIETORSHIP

ADVANTAGES

- Easiest and least expensive form of ownership to organize
- Ease of formation
- Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit

SOLE PROPRIETORSHIP

ADVANTAGES

- Sole proprietors receive all income generated by the business to keep or reinvest.
- Profits from the business flow-through directly to the owner's personal tax return

SOLE PROPRIETORSHIP

ADVANTAGES	DISADVANTAGES
• The business is easy to dissolve, if desired • Minimal working capital required	• Sole proprietors have unlimited liability • Sole proprietors are legally responsible for all debts against the business • Their business and personal assets are at risk • Difficulty raising capital

SOLE PROPRIETORSHIP

ADVANTAGES	DISADVANTAGES
• The business is easy to dissolve, if desired	• Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially deductible as an adjustment to income). • Lack of continuity in business organization in the absence of the owner

Partnerships

- **TWO OR MORE OWNERS**
  - **Partnership agreement may be oral or written.**
- **PROFITS ARE ATTRIBUTED DIRECTLY TO THE PARTNERS.**
- **OWNERS' EQUITY CONSISTS PRIMARILY OF THE PARTNERS' CAPITAL ACCOUNTS.**
- **THE PARTNERS SHOULD HAVE A LEGAL AGREEMENT THAT SETS FORTH HOW DECISIONS WILL BE MADE, PROFITS WILL BE SHARED, DISPUTES WILL BE RESOLVED, HOW FUTURE PARTNERS WILL BE ADMITTED TO THE PARTNERSHIP, HOW PARTNERS CAN BE BOUGHT OUT, OR WHAT STEPS WILL BE TAKEN TO DISSOLVE THE PARTNERSHIP WHEN NEEDED**

Partnerships

- THE PARTNERS MUST DECIDE UP FRONT HOW MUCH TIME AND CAPITAL EACH WILL CONTRIBUTE

Partnerships

ADVANTAGES

- Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement
- With more than one owner, the ability to raise funds may be increased

Partnerships

ADVANTAGES	DISADVANTAGES
• The profits from the business flow directly through to the partners' personal tax returns • Prospective employees may be attracted to the business if given the incentive to become a partner • The business usually will benefit from partners who have complementary skills	• Profits must be shared with others • Since decisions are shared, disagreements can occur • Some employee benefits are not deductible from business income on tax returns • The partnership may have a limited life; it may end upon the withdrawal or death of a partner • Unlimited liability (for general partners)

TYPES OF PARTNERSHIPS

General partnerships

Partners divide responsibility for management and liability, as well as the shares of profit or loss according to their internal agreement. Equal shares are assumed unless there is a written agreement that states differently

Limited Partnership and Partnership with Limited Liability

"Limited" means that most of the partners have limited liability (to the extent of their investment) as well as limited input regarding management decisions, which generally encourages investors for short term projects, or for investing in capital assets. This form of ownership is not often used for operating retail or service businesses. Forming a limited partnership is more complex and formal than that of a general partnership

TYPES OF PARTNERSHIPS

Joint Venture

Acts like a general partnership, but is clearly for a limited period of time or a single project. If the partners in a joint venture repeat the activity, they will be recognized as an ongoing partnership and will have to file as such, and distribute accumulated partnership assets upon dissolution of the entity

Corporations

A CORPORATION IS IDENTIFIED BY THE TERMS "LIMITED", "LTD.", "INCORPORATED", "INC.", "CORPORATION", OR "CORP.".

WHATEVER THE TERM, IT MUST APPEAR WITH THE CORPORATE NAME ON ALL DOCUMENTS, STATIONERY, AND SO ON, AS IT APPEARS ON THE INCORPORATION DOCUMENT

Corporations

- **USUALLY THERE ARE MANY OWNERS.**
  - Owners are referred to as **shareholders**.
- **THE OWNERS HAVE LIMITED LIABILITY FOR THE DEBTS OF THE CORPORATION.**
  - No shareholder of a corporation is personally liable for the debts, obligations or acts of the corporation.
- **THE SHAREHOLDERS ELECT A BOARD OF DIRECTORS TO OVERSEE THE MAJOR POLICIES AND DECISIONS.**
- **THE CORPORATION HAS A LIFE OF ITS OWN AND DOES NOT DISSOLVE WHEN OWNERSHIP CHANGES.**

Corporations

ADVANTAGES

- Shareholders have limited liability for the corporation's debts or judgments against the corporations.
- Shareholders can only be held accountable for their investment in stock of the company.
- Corporations can raise additional funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides to officers and employees.

Corporations

ADVANTAGES	DISADVANTAGES
• Can elect S corporation status if certain requirements are met. This election enables company to be taxed similar to a partnership. • Ownership is transferable • Continuous existence	• The process of incorporation requires more time and money than other forms of organization. • Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations. • Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible form business income, thus this income can be taxed twice.

TYPES OF CORPORATIONS

Subchapter S Corporations

A tax election only; this election enables the shareholder to treat the earnings and profits as distributions, and have them pass through directly to their personal tax return. The shareholder, if working for the company, and if there is a profit, must pay herself wages, and it must meet standards of "reasonable compensation". The basic rule is to pay yourself what you would have to pay someone to do your job, as long as there is enough profit. If you do not do this, the IRS (Internal Revenue Service) can reclassify all of the earnings and profit as wages, and you will be liable for all of the payroll taxes on the total amount

TYPES OF CORPORATIONS

Private Corporation

A private corporation can be formed by one or more people. A majority of its directors must be residents. A private corporation cannot sell shares or securities to the general public.

Public Corporation

Generally, a "public corporation" is one that offers its securities to the public.

LIMITED LIABILITY COMPANY (LLC)

The LLC is a relatively new type of hybrid business structure. It is designed to provide the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. Formation is more complex and formal than that of a general partnership.

The owners are members, and the duration of the LLC is usually determined when the organization papers are filed. The time limit can be continued if desired by a vote of the members at the time of expiration. LLC's must not have more than two of the four characteristics that define corporations:

- **Limited liability to the extent of assets;**
- **Continuity of life;**
- **Centralization of management;**
- **Free transferability of ownership interests.**