

# [My favorite business structure: formation of the sole proprietorship essay exampl...](https://assignbuster.com/my-favorite-business-structure-formation-of-the-sole-proprietorship-essay-example/)

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## Business Organizations

Important tips for the business persons
Business communities are concerned to a variety of business laws to meet the legal codes and standards setup through by the federal governments. Every businessperson should expert by having the knowledge of essential business laws to gain the great profits in future. These essential laws include; basic legal principles, contractual laws, the uniform commercial codes, property right, employment rights, external and internal business relationships, business laws of 21st century etc. The study of essential laws of business saves the time of businesspersons and conflicts with the competitors in the markets .

Forming the sole proprietorship businesses need very simple steps to follow by the owner. In start, the obtaining a business license and permits are compulsory to get from the relevant departments. Following the rules and regulations according to the nature of business is necessary for the business owners. Paying taxes according to the profit sharing is one of the responsibilities of the owners. Announcement of the company name is compulsory to be known everywhere.

## Justifications for the sole proprietorship

Sole proprietorship is useful to starting many business, for example: book keeping services, home healthcare services, financial planning services, landscaping services, computer repair services, catering companies, house cleaning services, freelance writing services, home tuitions, virtual assistant services, etc. .

## Explanation of the business structures:

Sole proprietorship
Sole proprietorship is a kind of business, in which there is only one business owner who is responsible to pay taxes on the profits from his business activities. It is the simple and most common business structure to starting any business. The business owner faces the profit and loss situations individually.
There are many advantages of the sole proprietorship. The formation of this type of business structure is simple and less expensive to establish. Costs of investments and taxations are not very high for the business owners. The owner of the sole proprietor business has a complete control to run the business activities. Nobody can interfere to the business structure unless the owner permits for it.
However, sole proprietor business structure is easy to form, but the owner has the heavy burden of duties to manage it alone. There are unlimited personal liabilities, which can be a cause of high debts on the sole owners. The business cannot raise money very quickly like other business structures because other financial supports (bank loans, investment of partners, etc.) are not with it.

## Partnership

Partnership is the name an association by having two or more than two people to work together as partners. There are different types of partnerships, such as general partnership, limited partnerships, joint ventures etc.
The structure of partnership is easy to understand by the owners. It is an easy and less expensive way of business. Financial commitments are shared amongst the partners. Only complimentary skills oriented employees can be hired and there are many incentives for the employees in the partnership business.

## LLC

Limited Liability Company is a type of business structure, which is the combination of pass-through taxes of sole proprietorship or partnership by having a limited liability of the corporation. The owners of the LLC are known as the members of the business structure. Not all the members or the shareholders have pay the taxes individually as the business setup pays taxes according to the set up rules and regulations.

## A Corporation

A corporation is the name of a large company or the combination of authorized companies to act a single unit known as a recognized form according to law. Many shareholders own it as an independent unit legally. The formation of a corporation is a complicated process of structuring because of extra fees spending on the administrators, complicated tax systems, and the complex legal requirements to run the professional setup.
The advantages of corporation structure include; limited liabilities, abilities for capital generation, proper taxation system, and hiring of the only potential candidates to work there.

## The steps of formation, liabilities, advantages and disadvantages of all forms of business are described below:

1. Steps of formation
- In sole proprietorship, no formal actions are required to form. Important legal permits and licenses are necessary to get an individual identity in the field of business.
- Forming the LLC, there are some rules; it should have a unique identity in the state, must be established as an LLC, and the restriction as an insurance or as a bank etc.
- Corporations are formed as registered companies in the states. Legal name is compulsory to be mentioned.
- Partnerships are formed by registering the business in the Secretary of State’s offices. Name of the business and the partners should be registered legally.
2. Personal liability of owners
- In sole proprietorship, the rate of personal liability is unlimited because of absent legal separations between the owners and the businesses. The risk of unlimited liability is because of employees’ actions.
- LLCs members are free in terms of personal liability payments.
- In corporations, there is limited liability for taking the responsibility of the shareholders.
- In partnerships, there is the system of joint and individual liabilities to pay for own actions of the groups and the individuals.
3. Taxation
- There are no serious tax payments in the sole proprietorships. The business unit is based on the business owner’s presence. Only legal taxations have to pay, which are very minimum.
- LLCs do not have separate tax payment systems for the individual shareholders. Proper system of tax payment through the employees for this department, imposed by federal tax law.
- The corporations have to pay state, federal, and local taxes based on profit ratio.
- Partnership taxes include; employment taxes, excise taxes, annual returns of incomes, income taxes, estimated taxes, self-employed taxes, etc.
4. Advantages and disadvantages
- Advantages of sole proprietorship are; easy and inexpensive to form, complete control of the owner and easy ways of tax preparation systems. Disadvantages of sole proprietorship include; personal liability is unlimited, difficult to increase the profits, and heavy burdens on the owners.
- Advantages of LLC include; limited liability for the members, less issues of record keepings, fair system of profit sharing, etc. Disadvantages of LLC include; limited life of the contacts, self-employment of taxes, etc.
- Advantages of corporations include; limited liabilities, capital generation abilities, treatment for corporate taxes, attractive packages for the talented employees. Disadvantages include; money and time taking projects, double payment of taxes, extra paperwork, etc.
- Advantages of Partnership include; inexpensive and easy ways of business, sharing of financial commitments, complementary skills, incentives for partnerships and employees, etc. Disadvantages of Partnership include; individual and joint liability, disagreement issues amongst partners, profit sharing problems, etc.

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