

Law hypothetical6

Law



Hypothetical As manager of the OUTAWAY INN, you are considering ways to increase your business in the dog days of August. Nothing seems to work all that well, when one day the co-owner of the local dirt bike store suggests forming the OUTAWAY ANNUAL BIKE RALLY AND RACE. Of course, he has no money to promote the event, but is willing to invest sweat equity. You are not willing to come up with the cash for promotion, but are willing to use the hotel as Official Headquarters at no charge.

Finally, the local dirt bike shop owner finds a Canadian who is willing to front the expenses (\$5, 000) for promotion of the event. He does not want to have any involvement in the event and is very concerned that he not suffer any potential liability except his investment. You all eventually agree to split the profits from the event on an equal basis. You question, however, the business skills of the dirt bike shop co-owner so that to have full responsibility over the business affairs of the event the biker shop owner will be restricted to marketing. The three parties are the dirt bike store (which is a partnership between two brothers), the money was (as individual) and the OUTAWAY INN (which is a sub chapter S corporation).

A. How do you structure the new venture?

The new venture should be structured as a partnership between the three parties. The three partners should have equal say in organizing and running the event. This means that the two brothers who own the bike shop should have one vote as should the owner of the OUTAWAY INN and the Canadian investor.

B. Should it simply be a contract relationship? What are the pros and cons of this? Or, should you form a new entity?

The new structure should be more than a contract relationship. There should

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be formation of a new registered business entity to ensure continuity if the race proves to be a success. This will ensure easier periodical organizing of the race. It will also be easier to promote the race if it is a formally business than when it happens in an impromptu manner. The formal registration of the race would be in essence a new investment by the three partners.

C. If so, should it be a partnership, an LLP, and LLC, a " C" corporation or an " S" corporation? Why?

The partnership perfectly fits the description of a Limited liability partnership in that one of its partners; the Canadian investor has limited liability. The requirement of the Canadian that he has as limited liability will prompt the partnership to go for C Corporation which will tax the business separately from the owners therefore ensuring that the partner will in no way be required to directly pay any tax to the United States federal income tax law. This will ensure that only the returns from his initial investment will be taxed. The most strategic move however, should the race continue, would be to adopt the " S" corporation status as it will ensure that the partnership will pass income from the business venture directly to shareholders thus avoiding the double taxation occurring in the dividends of public companies and partnerships (Sullivan and Steven, 2003).

Works cited

Sullivan, Arthur and Steven M. Sheffrin Economics: Principles in action. Upper Saddle River, New Jersey Pearson Prentice Hall, 2003. Print