

# [Business structure advice](https://assignbuster.com/business-structure-advice-essay-samples/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

DEVELOPMENT OF A BUSINESS IDEA In reference to the earlier sent email regarding advice on the way forward regarding development of your business idea, and the consequences of any decision you may choose to take, I appreciate this opportunity to help you understand the process of setting up a business.
In your email, you expressed dilemma in deciding whether to take on partners and financing your idea. To ensure we both agree, I will be giving my advice based on the facts you provided. With reference to your predicament, you have two business structures to consider pursuing. Depending on whether you take on partners and the method of financing your business may either be:
1. Sole proprietorship
2. Partnership
Sole proprietorship
In this case, you decide to be the sole owner. You provide all the startup capital either from your savings, loans of from family members. Advantages, you as a sole proprietor will enjoy are:
Being your own manager
You enjoy all the profits
Initial investment is low
Easy to start and manage
Greater flexibility of the business
Disadvantages of venturing into sole proprietorship are:
Unlimited liability that is personal assets may be used to settle debts
Low credit access
Greater responsibility in decision-making
Suffer from reduced power to attract and retain talent
The life of the business is limited to your existence
You bear all the taxes alone (Sole-proprietorship-advantages-and-disadvantages, 2014)
Partnership
This is where you choose to take on partners. Partners contribute capital to start the business. The business may be a limited partnership that is different from a partnership because some partners (limited partners) have limited liability for the company’s debts while others have unlimited liability (general partners). Advantages of a Partnership will be:
Easy to start unlike companies
Better credit terms offered by banks because of existence of security
Better talent retention
Tax savings as a result of profit sharing
Less strict monitoring and regulation
They enjoy flexibility
Disadvantages will be:
There is unlimited liability
Disagreements affect performance
Actions of a partner as a representative of the business affect the others
Higher taxes reduce profit margins
Tax
A sole proprietorship is liable for the following taxes and requirements as per the internal revenue service IRS:
Income tax.
Self-employment tax
Federal unemployment tax
Excise Taxes
Requirements are:
Providing information on Social Security taxes and Medicare taxes and income tax
Filing information returns for payments made and other transactions.
On the other hand, a partnership is subject to the following:
Income tax
Excise Taxes
Employment taxes:
Social Security and Medicare and Income Tax
Federal unemployment tax
Depositing employment taxes
In addition to these taxes that the business is subject to, each partner is liable to the following:
Income Tax
Self-employment tax
Estimated tax.
My recommendation to you as a new business owner is to start a business as a sole proprietorship and refrain from taking on partners. The sole proprietorship business structure will give you the opportunity start at a lower cost and offer you the flexibility of controlling the business. Once the business is stable, you can safely move to other business structures based on the company’s requirements.
I hope that the above facts help you arrive at a more confident
References
Sole-proprietorship-advantages-and-disadvantages. (2014, September 9). Retrieved from Tasmanian Government: https://www. business. tas. gov. au/starting-a-business/starting-a-business-from-scratch/choosing-a-business-structure-intro/sole-proprietorship-advantages-and-disadvantages., Department of State Growth -