

Business structure advice

[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 or 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

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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

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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

<https://assignbuster.com/business-structure-advice-essay-samples/>

Sole-proprietorship-advantages-and-disadvantages. (2014, September 9).

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