Sole proprietorship

Sole Proprietorship:

A sole proprietorship is a business owned by a single person.

Advantages of the Sole Proprietorship:

A. Simplicity

B. Autonomy

C. Sole Gain

D. Single Tax

E. Shelter Income

Disadvantages of the Sole Proprietorship:

A. Limited resources

B. Unlimited and Unshared Liability

Key Characteristics:

A. Liability-Liability is totally the sole proprietor's. Meaning that there is no difference between the sole proprietor business and personal assets they are one and if the business fails or the sole proprietor is sued the creditors and litigants can come after both as if they are one.

B. Income Taxes-The sole proprietor and the business are taxed as one.

C. Longevity or Continuity of the Organization-If the sole proprietor dies the business goes with him.

D. Control-The sole proprietor controls everything in the business. He and/or she can do it all their own of hire someone else to do it.

E. Profit Retention-The sole proprietor keeps all of the profits

F. Convenience of Burden-There are only a few instances when you have to have a register with the state or federal government. When you run a business under a different name then your own or you supply certain things that require licensure.

General Partnership:

By definition, is when two or more people come together to run a business.

Advantages:

A. Partners keep all the profit.

B. The partnership is free from Federal income tax.

C. Partnerships profits or losses pass directly to the partners as personal income for federal tax purposes.

D. Partnerships permit pooling of capital, talent and a sharing of risk.

Disadvantages:

A. The death of a partner may automatically end the partnership-with serious consequences to all concerned.

B. Unlimited personal liability of all the partners.

Key Characteristics:

A. Liability-The partnership has unlimited personal liability.

B. Income Taxes-There is no Federal tax for the partnership, but they can claim their profits and their losses on their personal taxes.

C. Longevity -The longevity of the business is based on the contract they had drawn up before the business was started in case of buyout and/or Death.

D. Control-The control of the business is based on what the partners agree on.

E. Profit Retention-All the profits go to the partners.

F. Convenience or Burden-The partnership should have a contract drawn up that describes exactly what each partner has contributited to the business, what share of the profits each partner will receive, duration of the partnership and the breaking up and closing of the business in case circumstances arise. If this is done then a partnership would be a good venture.

Limited Partnerships:

By definition, the limited partnership is at least one limited partner and at least one general partner.

Advantages:

A. The limited partner can make a profit without much effort.

B. If the company fails, the limited partner only losses the amount they had invested.

Disadvantages:

A. The limited partner has a very limited control in the running of the business.

B. It is very hard for the limited partner to get there investment out of a limited partnership.

Key Characteristics:

A. Liability-The majority of the liability is taken on by the general partners not the limited partners.

B. Income Taxes-If the partnership has two or more of the following things then it will be taxed as a corporation;

Freely transferable ownership papers

Continuing of life

Participation of limited partners in management of the business

Very limited liability of the limited partner in the debt of the business if it goes bankrupt (All Business, 2010) (All Business, 2010)

C. Longevity-The longevity of the limited partnership is based solely on the contracts drawn up.

D. Profit retention-The limited partner gets a percentage of the profits.

E. Convenience or Burden-The limited partnership is best for the limited partner if they want to use it as an investment tool.

C – Corporation:

By definition, the C – corporation means closely held corporation. They are small none traded corporations, usually but not always limited to no more than 30 shareholders.

Advantages:

A. The closely held corporation is its own legal entity, as long as all the rules and bylaws are followed at the local, state, and/or federal level then there is limited liability.

B. Closely held corporations can have benefit health plans, which will be better retirement and health insurance plans then those of non-corporation businesses.

C. The health insurance is fully deductible and up to a certain amount of group term life insurance benefits per employee.

D. Should a shareholder die or wish to cash out his or her shares, the corporation will still continue.

E. It is a lot easier to get investment capital in a corporation then it is in other businesses.

F. Employees can be offered stock option plans.

Disadvantages:

A. Double taxed. Which means after the corporation pays its taxes on the income the corporation makes, the shareholder will be taxed again on the profits they receive from their profits on their shares.

B. You must follow the local, state and/or federal laws when it comes to incorporating to the letter. If they are not followed then the shareholders may be held liable for any situation that comes along.

C. It costs more to have a corporation than any non-corporation business.

D. It takes more time and effort to maintain a corporation then a non-corporation.

Key Characteristics:

A. Liability -As long as all the local, state and/or federal laws are followed then there is very limited liability.

B. Income Taxes-A C-corporation is what is called double taxed. Meaning once the corporation pays the business tax then any profits the shareholders make are then taxed again.

C. Longevity -The only way a C-corporation can be dissolved is if it is voted on and agreed to by the shareholders and very careful set of rules are followed. It doesn’t matter if a shareholder dies or cash’s in their shares the corporation continues.

D. Control-A c – corporation usually has a president, vice president and secretary-treasurer. Anyone or all of those people control the corporation.

E. Profit retention-The closely held corporation’s profit depends on what percentage of stock each shareholder holds.

F. Convenience or Burden-In order to form a c-corporation there has to be different local, state and/or federal law that must be followed and certain things that must be done to incorporate the business.

S Corporation:

By definition, the S Corporation means Subchapter S – Corporation, it comes from the tax code from which it is taxed. An s-corporation is limited to no more than one hundred shareholders.

Advantages:

A. Since the corporate losses are passed thru to the shareholders, they are able to take is as a loss on their taxes.

B. You will have limited personal liability without having to pay high corporate taxes.

C. It is a lot easier to get investment capital in a corporation then it is in other businesses.

Disadvantages:

A. There are a lot of rules to follow and the amount of shareholders is limited.

B. It will be costly to set up and follow the rigid set of corporate rules and laws.

C. There will be close scrutiny by the I. R. S.

D. All shareholders must be U. S. citizens.

E. All shareholders must vote for the S corp.

F. The corporation can't deduct the benefits like health and or accident insurance.

Key Characteristics:

A. Liability-the shareholder is only liable for the debts the corporation has up to how much they have invested.

Exceptions Include:

1. If the shareholder guarantees a business loan.

2. If it is ruled by the courts that the business is a scam.

B. Income Tax-S corporations are corporations that elect to pass corporate income, losses, deductions and credit through to their shareholders for federal tax purposes. Shareholders of S corporations report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates. This allows S corporations to avoid double taxation on the corporate income. S corporations are responsible for tax on certain built-in gains and passive income.

C. Longevity-The S corporation is a perpetual entity and is not affected by the death of a shareholder.

D. Control-The shareholders, the board of directors and the officers of the corporation all control the corporation.

E. Profit Retention-In an S corporation all Officers, the Board of Directors and shareholder-employees must be paid a reasonable salary from the corporate earnings.

F. Convenience or burden-Many rules and regulations must by follow the corporation, including the number of shareholders. Also, it can be costly to set and follow corporate formalities.

LLC

By definition, an LLC means Limited Liability Company. It is a business that brings a partnership and a corporation together.

Advantages:

A. LLC’s offer pass-through tax statues similar to that of a partnership.

B. Corporations are required to hold meetings and record minutes on those meetings each year; LLCs are not. The amount of paperwork needed to purchase assets, open bank accounts or make changes within the company is also significantly reduced in an LLC.

C. LLC’s provide owners with a degree of liability protection, such as also provided by a C corporation. Owners of both C Corporations and LLC’s are typically not responsible for the debts and liabilities of the business.

Disadvantages:

A. Many investors will not invest in LLC’s, because it’s a business structure that is not understood.

B. LLC’s don’t have employee stock option plans.

C. You can’t switch from an LLC to a C or S corporation like you can switch from a C to S corporation.

D. Some states don’t allow single-member LLC’s.

Key Characteristics:

A. Liability-LLC’s are not personally responsible for debts of the business.

B. Income tax-LLC’s are taxed at the personal level.

C. Longevity or continuity of the organization-Operating agreement can require a number to obtain interest beyond transferring interest.

D. Control-persons and other legal entities composed of persons (such as trusts and other corporations can have the right to vote or receive dividends once declared by the board of directors. In case of for-profit corporations, these voters hold shares or stock and are thus called shareholders or stockholders. When no stockholders exist, a corporation has members who have the right to vote on its operations. Voting members are not the only members of a “ corporation”. The members of a non-stock corporation are identified in the Articles of incorporation and the titles of the member classes may include “ Trustee,” ” Active,” ” Associate,” and /or “ Honorary.” However, each of these listed in the Articles of Incorporation are members or the corporation.

E. Profit retention-Members share in the profit are proportion to how they invested in the business.

F. Convenience or burden-LLC’s don’t allow single member companies, LLC’s aren’t conducive to employee stock option plans and Investors will not invest in LLC’s. (Haus, 2011) (All Business, 2010) (All Business, 2010) (All Business, 2010) (All Business, 2010)