



Types of Business Organizations

When organizing a new business, one of the most important decisions to be made is choosing the structure of a business. Factors influencing your decision about your business organization include:

- ✓ Legal restrictions
- ✓ Liabilities assumed
- ✓ Type of business operation
- ✓ Earnings distribution
- ✓ Capital needs
- ✓ Number of employees
- ✓ Tax advantages or disadvantages
- ✓ Length of business operation

The advantages and disadvantages of sole proprietorship, partnership and corporation are listed below.

Sole Proprietorship

This is the easiest and least costly way of starting a business. A sole proprietorship can be formed by finding a location and opening the door for business. There are likely to be fees to obtain business name registration, a fictitious name certificate and other necessary licenses. Attorney's fees for starting the business will be less than the other business forms because less preparation of documents is required and the owner has absolute authority over all business decisions.

Partnership

There are several types of partnerships. The two most common types are general and limited partnerships. A general partnership can be formed simply by an oral agreement between two or more persons, but a legal partnership agreement drawn up by an attorney is highly recommended. Legal fees for drawing up a partnership agreement are higher than those for a sole proprietorship, but may be lower than incorporating. A partnership agreement could be helpful in solving any disputes. However, partners are responsible for the other partner's business actions, as well as their own.

A Partnership Agreement should include the following:

- ✓ Type of business.
- ✓ Amount of equity invested by each partner.



- ✓ Division of profit or loss.
- ✓ Partners compensation.
- ✓ Distribution of assets on dissolution.
- ✓ Duration of partnership.
- ✓ Provisions for changes or dissolving the partnership.
- ✓ Dispute settlement clause.
- ✓ Restrictions of authority and expenditures.
- ✓ Settlement in case of death or incapacitation.

Corporation

A business may incorporate without an attorney, but legal advice is highly recommended. The corporate structure is usually the most complex and more costly to organize than the other two business formations. Control depends on stock ownership. Persons with the largest stock ownership, not the total number of shareholders, control the corporation. With control of stock shares or 51 percent of stock, a person or group is able to make policy decisions. Control is exercised through regular board of directors' meetings and annual stockholders' meetings. Records must be kept to document decisions made by the board of directors. Small, closely held corporations can operate more informally, but record-keeping cannot be eliminated entirely. Officers of a corporation can be liable to stockholders for improper actions. Liability is generally limited to stock ownership, except where fraud is involved. You may want to incorporate as a "C" or "S" corporation.