Proprietorships

*Best suited for part time businesses, hobby-type businesses.*

*Examples: t-shirt business, artist*

**Type of Entity**

* + Business is owned and controlled by one person, the owner

**Advantages**

* + Most common
	+ Easiest and cheapest to start and end
	+ Very few legal requirements
	+ Owner has sole control over business decisions
	+ Owner receives all profits

**Disadvantages**

* + Owner is responsible for all debts—all money and assets of the owner can be used to pay debts to any creditors
	+ Unlimited liability for debt
	+ Unlimited liability from lawsuits
	+ Must be “jack of all trades”
	+ Business ends when owner quits or dies
	+ Riskiest form of business

**Taxes**

* + Income and loss reported on individual’s personal income tax
	+ Owner is the same as your business in the eyes of the law
	+ Pay full FICA (social security) and Medicare tax

**Starting a Proprietorship**

* + Simply begin buying and selling as a business
	+ Choose a name (if you want) and register the name with the local, state, and federal governments
	+ Obtain licenses and permits
	+ Keep track of income & expenses and pay taxes

Partnerships

*Best suited for two or more people who work really well together and who have minimal risk.*

*Examples: accountants, lawyers*

**Type of Entity**

* Business is owned and controlled by two or more people

**Advantages**

* Least common
* Easy and cheap to start
* Owners have control over business decisions
* Partners share all profits
* Partners pool talent
* Partners share investing

**Disadvantages**

* Each partner is responsible for all debts if business or partner should fail
* Unlimited liability for debt
* Unlimited liability from lawsuits
* Risky because you’re depending on your partner
* Business ends when partner wants to leave

**Taxes**

* Income and loss reported on individual’s personal income tax
* Owner is the same as your business in the eyes of the law
* Pay full FICA (social security) and Medicare tax

**Starting a Partnership**

* Written partnership agreement specifying name of business, amount of investment of each partner, level of authority of each partner
* Choose a name and register the name with the local, state, and federal governments
* Obtain licenses and permits
* Keep track of income & expenses and pay taxes

Corporation

*Best suited for businesses who have a need for minimal risk.*

*Examples: Kraft, Inc., Kellogg Co.*

**Type of Entity**

* Business is a separate legal entity formed by documents filed with our state. It’s owned by one or more shareholders and managed by a board of directors
* Variations are S-Corp, C-Corp, LLC (Limited Liability Corp)

**Advantages**

* Liability protection of owners – all risk (debt) is in the business name, not the individual’s name!
* Liability is limited to the amount of money an owner invests in the business
* People can invest in the business and receive profits w/o taking part in the day to day responsibilities
* Business can easily be expanded
* Ownership can be changed by the sale of stock
* Business will live until filing closure with state

**Disadvantages**

* More difficult and expensive to form
* Must meet more legal requirements
* Decision making shared among managers, board of directors, and shareholders
* Owners don’t have access to profits unless board of directors approve

**Taxes**

* Must pay corporate taxes on profits earned
* Investors also pay taxes on their individual earnings from the business

**Starting a Corporation**

* File articles of incorporation defining ownership, purpose, place of business, loans and finances, management, etc
* Each state has individual requirements for filing
* Must create corporate bylaws must name a board of directors
* Must issue stocks to investors