

1.1 BUSINESS STRUCTURE

1.1.1 Sole Proprietorship

A sole proprietorship is a business structure with a single owner.

1.1.1.1 *Key Highlights:*

- One owner.
- Unlimited personal liability.
- No separation between the owner and the business.
- All income, losses, assets, and liabilities belong to the owner.

1.1.1.2 *Formation:*

- No filing requirements, just need to start operating the business.
- May need federal ID for operations like paying sales tax and filing payroll reports.

1.1.1.3 *Operations:*

- Owner makes all the rules and runs the business as they wish.

1.1.1.4 *Termination:*

- Either the owner dies, or.
- The owner chooses not to continue with the business.
- May terminate whenever the owner chooses.

1.1.2 General Partnership/Joint Venture

A general partnership is like a sole proprietorship just with more than one person. Joint ventures are general partnerships for the purpose of executing a onetime business venture. For example: Susan and Joe sell BBQ out of a food truck on an ongoing basis (General Partners). Susan and Joe are teaming up to sell BBQ at a county fair for a one-time business venture (Joint Venture). Both are treated the same so make sure to link these two together.

1.1.2.1 *Key Highlights:*

- More than one owner.
- Unlimited personal liability for all partners.
- All income, losses, assets, and liabilities are shared among the owners.

1.1.2.2 *Formation:*

- No filing requirements, just need to start operating the business.
- May need federal ID for operations like paying sales tax and filing payroll reports.

1.1.2.3 *Operations:*

- Unless otherwise stated, partners share in business operations and management.
- Partners share income and losses.

1.1.2.4 *Termination:*

- Either one of the partners die, or.
- The owners' chooses not to continue with the business.
- May terminate whenever the owners want.
- Partnership agreement will spell the out terms of termination. If there is no such wording in the partnership agreement or the partnership agreement doesn't exist, then Revised Uniform Partnership Act (RUPA) will govern the termination.

1.1.3 Limited Partnership

Like a general partnership but some of the partners have the benefit for limited liability. At least one partner must be a general partner for a limited liability partnership to exist.

1.1.3.1 *Key Highlights:*

- More than one owner.
- Unlimited personal liability for all general partners.
- Limited liability for limited partners.
- All income, losses, assets, and liabilities are shared among the owners.

1.1.3.2 *Formation:*

- Legal documents must be filed with the state.
- Governed by the Revised Uniform Partnership Act.

1.1.3.3 *Operations:*

- General partners run the day-to-day operations of the business.
- Limited partners forfeit their rights to have a say in the management of the business. If a limited partner participates in the management of the business, then they will lose their limited liability protection.
- Partners share income and losses per partnership agreement.

1.1.3.4 *Termination:*

- Departure of a limited partner does not cause the termination of the partnership.
- Departure of a general partner may lead to the termination of the partnership if there is only one general partner.
- The owners' chooses not to continue with the business.
- Partnership agreement will spell the out terms of termination. If there is no such wording in the partnership agreement or the partnership agreement doesn't exist then RUPA will govern the termination.

1.1.4 Limited Liability Partnership

Limited liability partnerships are popular among professional service firms (lawyers, accountants, doctors, etc.). They give limited liability to partners for the actions of other partners. For example: Bob, Richard and Bill are partners in BRB LLP. Bob is being sued by a client for his actions. Although Bob might be personally liable for his actions Bill and Richard will be protected up to their investment in the partnership.

1.1.4.1 Key Highlights:

- More than one owner.
- Limited liability for partners except for personal torts.
- Limited liability for actions of other general partners.
- All income, losses, assets, and liabilities are shared among the owners.

1.1.4.2 Formation:

- Legal documents must be filed with the state.
- Governed by the Revised Uniform Partnership Act.

1.1.4.3 Operations:

- General partners run the day-to-day operations of the business.
- Limited partners may have a say in the management of the business without forfeiting limited liability protection.
- Partners share income and losses per partnership agreement.

1.1.4.4 Termination:

- Similar rules to other partnerships listed above.

1.1.5 Corporation

A Corporation is a separate entity from its owners. They have some similarities with partnerships, but key differences set them apart.

1.1.5.1 Key Highlights:

- Double taxation – taxed at the corporate level and again when it pays dividends to stockholders.
- Limited liability for stockholder.
- Has perpetual life.
- More dynamic than most entities.

1.1.5.2 Formation:

- Legal documents must be filed with the state.
- Must have articles of incorporation
 - Corporate name
 - Number of authorized stocks
 - Filed with the secretary of state

- Must have bylaws and reoccurring meetings with the board of directors

1.1.5.3 Operations:

- Shareholders are considered the “owners.”
- The stockholder elects a board of directors that oversee the company.
- The board of directors hire the officers (CEO, CFO, CMO etc.).
- The officers run the day-to-day operations of the corporation.
- In small corporations you can have an individual who is a shareholder, member of the board, and a corporate officer.

1.1.5.4 Termination:

- Directors vote to dissolve the corporation.
- Involuntarily dissolved judicially (bankruptcy, cases of fraud, etc.)
- Failure to pay annual fees or file annual reports.

1.1.6 S-Corporation

An S-Corporation is a hybrid entity with the benefits of a corporation but the taxation of a partnership.

1.1.6.1 Key Highlights:

- Structure of a corporation with the pass-through advantages of a partnership.
- Limited liability for stockholder.
- Has perpetual life.
- No more than 100 shareholders.

1.1.6.2 Formation:

- Legal documents must be filed with the state.
- Same incorporating process as C-Corp.
- Limits on number of shareholders and type of shareholders (no foreign owners).

1.1.6.3 Operations:

- Shareholders are considered the “owners.”
- The shareholders elect a board of directors that oversee the company.
- The board of directors hire the officers (CEO, CFO, CMO etc.).
- The officers run the day-to-day operations of the corporation.
- In small corporations you can have an individual who is a stockholder, member of the board. and a corporate officer. This is common for S-Corps where the owner also manages the business

1.1.6.4 Termination:

- Directors vote to dissolve the corporation.
- Involuntarily dissolved judicially (bankruptcy, cases of fraud, etc.).
- Failure to pay annual fees or file annual reports.

1.1.7 Limited Liability Corporation (LLC)

An LLC is a hybrid entity with the benefits of a corporation but the taxation of a partnership. It is having the same benefits of an S-Corp but with fewer restrictions for formation.

1.1.7.1 *Key Highlights:*

- Structure of a corporation with the pass-through advantages of a partnership.
- Limited liability for stockholder.
- Has perpetual life.
- Has the choice of being taxed as a Corp or as a Partnership.

1.1.7.2 *Formation:*

- Legal documents must be filed with the state.
- Same requirements and incorporating process as C-Corp.

1.1.7.3 *Operations:*

- Shareholders are considered the “owners.”
- The shareholders elect a board of directors that oversee the company.
- The board of directors hire the officers (CEO, CFO, CMO etc.).
- The officers run the day-to-day operations of the corporation.
- In small corporations you can have an individual who is a shareholder, member of the board, and a corporate officer. This is common for LLCs where the owners also manage the business

1.1.7.4 *Termination:*

- Directors vote to dissolve the corporation.
- Involuntarily dissolved judicially (Bankruptcy, cases of fraud, etc.).
- Failure to pay annual fees or file annual reports.

1.1.8 Key Takeaways

- Know the different types of entities.
- Know the formation process and which entities require filing formal documentation.
- Be able to spot a business entity given specific qualities of the entity (i.e. double taxation means C-Corp).