**TYPES OF BUSINESS ORGANIZATIONS**

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**Sole Proprietorship**

A sole proprietorship is a business with one owner, and is relatively easy to form. The owner has unlimited liability for all debts of the business, which means that personal assets of the proprietor can be used to repay any losses incurred by the business. The profit or loss from the business is entirely owned by the proprietor and is reported on the entrepreneur’s personal income tax return, along with all other income and expenses. The life of a sole proprietorship is limited to the time that the owner is able to operate the business.

A sole proprietorship may be a very small business with one owner/employee, it may have only a few employees, or it may be a very large business with hundreds of employees. All business decisions, whether good or bad, are the responsibility of the entrepreneur. While a sole proprietor may not need to follow as many government regulations, as with other structures, he or she absolutely must be diligent about keeping accurate tax and employee records and following employment laws.

Sole proprietors commonly put in long hours of work. They may have difficulty raising capital from outside sources for their business if others are leery about taking on the risk. Many sole proprietors use their personal savings and investments in order to make their business successful. The sole proprietor bears all the financial risks.

**Partnership**

Partnerships can take two forms: general partnership and limited partnership. A general partnership is similar to that of a sole proprietorship in several ways. It is relatively easy to form, the income generated from the partnership is only taxed once (declared on each partner’s individual tax return), and the partners have unlimited liability, which means that creditors can take personal assets of the partners if the partnership does not have enough money to pay the bills. The life of a partnership is also limited to the time that the partners are working together in the business. As soon as one partner leaves the partnership, a new partnership is created by the remaining partners. If there are only two partners and one wishes to leave, the remaining partner has the opportunity to operate the business as a sole proprietorship once all the legal ramifications have been finalized.

Partnerships have several differences from sole proprietorships. First, partners can secure financing more easily because more than one person is able to obtain credit. Second, partnerships often involve people with complementary skills, meaning that one partner is responsible for some aspects of a business (such as sales) while the second partner is responsible for other areas (such as production).

A business partnership is like a marriage, in that both partners need to work well together, take on responsibility with great integrity, and have good decision-making skills. To ensure success, the partnership should have a carefully worded Articles of Partnership document that clearly lays out what each partner is responsible for doing, how the profits are distributed, and the percentage of the company each partner owns. There have been many failed partnerships that have left one individual liable for the poor economic decisions or unethical behavior of the other partner. And since unlimited liability in a partnership means that any partner is liable for the expenses of the whole enterprise, if one partner cannot pay his or her share of the losses, the other(s) are responsible.

In a limited partnership, the limited partner is responsible only for the contribution he or she has made to the partnership, and the other general partners have unlimited liability for the remaining debts. Many people will become a limited partner in a partnership because it is less risky. With certain main minor exceptions, tax reporting is the same as for a general partnership.

**Corporation**

A corporation is more complicated than that of a sole proprietorship or partnership. The services of an attorney are required to file a document called the Articles of Incorporation, which are then sent to the Secretary of State’s Office in that company’s home state. The Articles of Incorporation detail the purpose of the business as well as other information, such as how many stocks will be issued and who will initially be involved in running the business. When the state gives approval for the establishment of a corporation, the state has created a new legal entity. It operates the same as an individual adult who pays taxes and must abide by certain laws.

Corporations must follow much stricter regulations (both provincial and federal) than sole proprietorships or partnerships do. The corporation must issue stock, and those who buy the stocks become part owners of the corporation. A corporation provides limited liability for its investors, which means that none of the stockholders is obligated to cover the debts of the corporation beyond what he or she has invested in the company. Because of the limited liability provision, corporations generally have an easier time raising capital from investors than do sole proprietorships and partnerships. And unlike the sole proprietorship and partnership, the corporation , has an unlimited life span as ownership, reflected through stocks, can be readily traded or passed on from one generation to another.

The corporation files its own tax return and pays taxes on its income. If the corporation distributes some of its earnings in the form of dividends, then the stockholders must pay taxes on those dividends, even though the corporation has paid taxes on its earnings. This is why it is said that corporate income is double-taxed.

Each corporation has a board of directors, made up of a group of individuals who meet during the year to make important decisions about the company. Stockholders elect the board members, who oversee the overall operations of business. The board also elects and monitors the officers of the company. These are the individuals who are responsible for the day-to-day operations of the business. Typically, many owners (stockholders) do not work in, or for, the business.

A corporation can be a privately or publicly held. A public company or publicly traded company is a company that offers its securities (stock, bonds, etc.), for sale to the general public, typically through a stock exchange. Privately held companies or closed corporations are owned by a relatively small number of shareholders who own stocks which are not traded publicly. Many family-owned corporations are privately held companies, where the family members own all of the stocks. When a member wants to sell his or her shares, another family member usually buys them.

Many individuals and partners choose to create what is called an “S”-corporation. An S-corporation is treated as a partnership and not as a corporation for tax purposes, meaning that the corporation itself does not pay federal income tax. Instead, the partners include their share of the corporation’s income losses in their own personal tax returns, which can afford them certain tax breaks. An S-corporation is treated as a regular corporation for other purposes, and requires Articles of Incorporation. S-corporations must follow the same formalities and record keeping of a corporation. S-corporations are also managed by a board of directors and officers, however, the board and officers are typically the partners of the business.

**Franchise**

A franchise is actually a hybrid, and can take the form of a sole proprietorship, partnership or corporation, depending upon the legal formation. Franchising offers the advantages of a quick startup, a proven business plan, recognizable trademark and brand, and a pre-existing infrastructure. For many, a franchise is merely a temporary business investment opportunity without the hassles of long-term ownership.

A franchise usually lasts for a fixed time period and serves a specific "territory" or area surrounding its location. A franchisee may manage or own several such locations. Agreements typically last from five to 30 years. If a franchisee wishes to terminate his or her contract with the franchisor (the seller of the franchise), the franchisee may face serious consequences. Franchise contracts tend to favor the franchisor. For example, franchisors are usually protected from lawsuits from their franchisee, and contracts are renewable at the sole option of the franchisor. Most franchisors require franchisees to sign agreements that waive their rights under federal and state law. Fees are fully disclosed up front, and start-up costs and working capital must be in place before an individual or partnership can secure the license. In addition, the franchisor will be required to pay a royalty fee for the use of the trademark, and a reimbursement fee for training and advisory services. Depending upon the franchise, royalty fees (a percentage of the gross profits) are paid to the franchisor on a weekly or monthly basis, while the reimbursement fee is usually paid up front before any training begins.

The franchisee must carefully negotiate a license called a “Document Disclosure.” The franchisees, along with the franchisor, develop both marketing and business plans, usually with the help of a territory manager. For the franchisee to be successful, there must be assurance that any future franchises do not crowd the territory The franchisee must be seen as an independent merchant, and must be protected by the franchisor from any trademark infringement by third parties.