Business Organization

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Choosing a proper structure for a business is an essential part before starting a new business. It has a great influence on the business and its profitability. Every business structure has its own set of benefits and drawbacks. It depends on the nature and scope of the business. Small businesses usually opt sole proprietorship and partnership, while a medium size business opts limited liabilities company (LLC) and corporation structures. A sole proprietorship has very few documentation and registrations required, it is run by a single owner. The partnership is a small business usually run by two or more owners. These two structures are informal and these are not much secure in terms of dispute and other issues. LLC has a strong legal structure, it is registered with the security and exchange commission. The sole proprietorship and partnership businesses have test benefits, the owner and business are considered a single entity. So tax is levied on the owner's income only. The corporation is taxed twice both the income of the corporation and the income of the stockholders. While LLC is a legally secure business like a corporation, however, it is taxed like sole proprietorship and partnership.

For my business, I will choose an LLC business structure which will give me the right balance of legal protection and tax advantage. The business structure affects the amount of taxes paid, paperwork and documentation, and personal abilities. Before registering a business the entrepreneur must register the business with the government regulators. It will need a tax ID number to register a business and get the help the owners and management to sue in court in case of any disputes and conflicts.licenses and permits for your business. LLC is the safe and legally secure business structure, and provide tax leverage to the owners. Here we will discuss all the four major business structures and their details.

**Sole proprietorship**

A sole proprietorship is the simplest and easy form of the business in which the control and ownership of the business belong to one person. A business is considered a sole proprietorship when a person starts a business without any registrations and certificates. It is not a separate entity, means the assets and liabilities of the business are not separated from the owner (Choose a business structure, 2019).

**Steps to form**

It is the simplest form of business which doesn't need any registrations and legal documentation. This kind of business is formed if the entrepreneur doesn't register the business with the regulatory authorities of the state.

**Personal Liabilities for ownership**

The liability of the owner is unlimited. The unlimited liabilities means in case of loss, if the debts are more than the worth of the business, the owner will recover it from his or her personal property.

**Taxation**

The owner must declare all its business income and losses in personal income tax returns. The business is not taxed separately. The business and its owner is considered a single entity by the law.

**Advantages**

There are many advantages of sole proprietorship which attract the small investors to adopt this structure for their businesses. Some of the advantages are mentioned below.

* The formation of the business is easy, there are no certain obligations to start this business.
* It provides the investor with the benefits in taxation, only the income of the business is to pay the tax.
* The owner can make a prompt decision without any delay and interference of others.
* The business can be dissolved easily without any legal obligations.

**Disadvantages**

There are certain disadvantages of sole proprietorship business structures which are mentioned below.

* A single person may have limited resources to cover all the expenses of the business.
* The life of the business is limited, it depends on the health and willingness of the owner.
* Unlimited liability is the major risk associated with this form of business.
* One person does not have expertise in every domain of the business.

**Partnership**

It is the simplest structure of the business formed by two or more persons. The partnership has two major types; one is the limited partnerships and limited liability partnership. The Limited partnership has one partner who has unlimited liabilities, while other partners have limited liabilities (Du et al., 2018). While in LLP all the partners have limited liabilities. It is used by the multiple owners such as professional groups, to form a firm such as lawyers firm, audit firm, private health centers, etc.

**Personal Liabilities for ownership**

Usually, the liabilities of the owner is unlimited like the sole proprietorship. However, there are some types of partnership like a limited partnership in which only one partner has unlimited liability. While in limited liability partnership (LLP) all the partners have limited liabilities.

**Steps to form**

The partnership business can be formed without any documentation of the arrangement at all. However, there is a partnership deed according to the 1932 Act of partnership the investors sign the dead to make it legal and secure.

**Taxation**

The partnership is not a legal entity that could be separate from the owners of the business. So the business is not liable to pay its tax, however, the profit earned by the partners are believed to pay the taxes.

**Advantages**

The benefits of partnership business are given below.

* Partnership business is easy to form because there are no legal formalities to forming this kind of business.
* There is a combination of experts and different skills owned by the partners.
* Financing is easy due to many investors.
* Better decisions are made.
* Easy to raise funding such is loan and investors contribution.

**Disadvantages**

Disadvantages of a partnership are mentioned below.

* The profit of the business is shared by many people which minimize the profit of a single owner.
* There are more chances of disputes and disagreements.
* It can be dissolved by the death of a single partner.

**Limited liability Company**

LLC is a legal business structure which has multiple benefits. It is a registered form of business however, it has a tax advantage like a partnership and sole proprietorship. It can be expended and financing is easier for such business to take a loan from banks or other financial institutions.

**Personal Liabilities for ownership**

The liabilities of the owners are limited as its name indicates. LLC protects the personal assets of the investors in case of losses to cover the debts of the company.

**Steps to form**

There are several steps which are followed to form the LLC business.

First, the business has to choose a name which is unique and not taken by another firm. Then the business has to do the paperwork and pay the filing fee. Moreover, the business has to create an operating agreement which sets the responsibilities of the members and their rights. Finally, obtain the licenses and permits.

**Taxation**

The owners of the LLC type businesses are liable to pay tax on their profit without facing any corporate tax.

**Advantages**

The following are some advantages of the LLC business.

* Tax benefits of the business
* Legally secure business
* Financing is easier.
* Assets are protected in this type of business

**Disadvantages**

* There are strict regulations and complex laws to be followed.
* The owners of the business cannot be employed in many cases.
* It dissolves on the death of a member similar to the partnership.

**Corporation**

It is a legal structure of the business that is separate from the owners of the business. It can make its profit and pay its taxes.

**Personal Liabilities for ownership**

The liabilities of the owners are limited in case of losses their personal properties are secured.

**Steps to form**

Formation of this type of business involves some steps. First, the business will choose a unique name, then pay the legal fee, memorandum, and article of associations should be formed. Hold the first business meeting by the board of directors. Issue the certificates of stock to the owners of the corporation (Eisenberg, 2017).

**Taxation**

The corporate pays its taxes and the profit after tax is distributed among the owners. The profit of the business is taxed which is earned and distributed by the owners. So the earning of the business is taxed twice.

**Advantages**

* The business has an unlimited life.
* The limited liabilities of the shareholders
* Edge to raise the capital and get a loan from financial institutions.

**Disadvantages**

* Double taxation paid by both the business and the shareholders.
* Complex procedures and time-consuming filing procedures.

**References**

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