Main types of business

1 Three main types of businesses exist in the market place: the sole proprietorship, the partnership, and the corporation.
2 The two main concerns confronting the potential business owner when determining which form is best for them are taxes and personal liability.
3 The sole proprietorship is owned by a single person.
4 Hey there!
5 This makes it easy to form.
6 The sole proprietorship is not considered a taxable entity on its own.
7 The owner, essentially, is the company.
8 In this form no taxes are levied against the company itself.
9 But, instead, they are levied on the personal income taxes of the owner.
10 The partnership is when two or more people own a business without incorporating.
11 Seymour and Chucky have just formed their own partnership to sell coiled plastic play toys to commuters.
12 A partnership is easy to form and has a similar tax arrangement as the sole proprietorship because, just like the sole proprietorship, the partnership is not a separate taxable entity.
13 There are two main types of partnerships: general and limited.
14 A general partnership is when each partner is involved in the day-to-day management and has unlimited liability for the debts incurred by the company.
15 Limited partnerships, however, are a little different.
16 In most limited partnerships there is a limited partner, who supplies the money, and a general partner, who supplies the expertise.
17 Limited partners are liable only to their amount of investment in the partnership.
18 However, their power in the management of the company is also limited.
19 In other words, in limited partnership arrangements general partners run the show, just like you and your parents.
20 It must be said that these two formations have disadvantages in that,
21 one, it is tough to raise large amounts of funds or capital;
22 two, if the business fails, the sole proprietor and the general partner are personally liable for debts, and,
23 three, it exists only if the owner does.
24 If you die, the business entity dies with you.
25 Not only did he die, but so did the business entity.
26 The third type of business organization is called the corporation.
27 The corporation, as a form of business, was created by a legislative act of the government as a separate legal body for the explicit purpose of conducting business.
28 The owners of the corporation are the shareholders, or those who own stock in that corporation.
29 How big your piece of ownership is depends on how many shares of stock you own.
30 A corporation has most of the same responsibilities as an individual.
31 It can sue and be sued, and is also taxed like an individual.
32 The advantages of the corporation are,
33 one, no personal liability: the corporation itself can be sued, but not its individual investors, and,
34 two, the ease of shifting ownership, which can be divided into stock and sold in public markets, and,
35 three, the corporation lives on even after you don’t.
36 These factors all translate into an easier time for investors to raise capital.
37 We should have been a corporation! We should have been a corporation!
38 The major disadvantages of corporations are that they are more complicated to form and that they are taxed separately by the government.
39 This is known as the corporate income tax.
40 The corporate income tax rate differs depending on the amount of corporate income and the whims of Congress.
41 The corporate income tax basically results in a double taxation.
42 How’s that?
43 Because the business gets taxed and then the dividend, or payments to owners of the company, are taxed as income to individuals.
44 The same money is taxed twice.
45 Oh!

46 Let us walk you through an example of the double taxation that corporations unfortunately face.
47 Eh, my name is Dave Thompson, owner and operator of Tattoo U Incorporated, a national chain of tattoo parlors featuring excellent, courteous service, a sterile and clean environment, and the latest designs in tattoo formal ware.
48 For argument's sake, let's say that Tattoo U has been a big hit this year.
49 It had a taxable income of 600,000 dollars.
50 Let's also assume that the marginal corporate income tax rate for this year is 38 per cent.
51 Finance people call taxes marginal to kind of combine state and federal and everything else, so we do it too.
52 So don't freak.
53 Thirty-eight per cent of Tattoo U's income is paid to Uncle Sam.
54 Because the corporation is owned by many shareholders, those shareholders receive the financial return on their investment in the form of dividends.
55 But this is where the double taxation comes in.
56 Once those dividend payments are sent to the shareholders, they are taxed again by the government as personal income of the individual shareholders.
57 So, first, the separate corporate legal entity of Tattoo U is taxed, and then its individual owners are taxed.
58 This compares to Our Heavenly Tattoo, a local tattoo parlor that is a sole proprietorship, run and owned by Big Jimbo Floyd.
59 Big Jimbo's income from Our Heavenly Tattoo is considered his personal income because his business is a sole proprietorship.
60 So the income from the business is added to Big Jimbo's income without a separate tax to Our Heavenly Tattoo.
61 Jimbo is taxed at his individual income tax rate.
62 He is only taxed once.
63 It must be said that, although corporations do have disadvantages, most companies incorporate unless they are very small.
64 Why?
65 Because it's easier to raise capital or funding for your business as a corporation.

66 Raising capital as a sole proprietor or partnership is much more difficult.
67 Also, investors in corporations have limited liability, meaning the most that they could lose is the amount they invested in the company's stock.
68 Now that we've seen what types of business forms we have to choose from…