Selecting a Form of Business Ownership

Chapter Objectives
1. Identify questions in choosing a form of business ownership
2. Describe sole proprietorship and advantages and disadvantages
3. Identify types of partnerships and explain partnership agreement
4. Describe advantages and disadvantages of partnership
5. Explain corporate formation and operation
6. Discuss advantages/disadvantages of corporation
7. Examine special types of ownership
8. Define mergers and acquisitions and explain motivation to merge/acquire

Factors to Consider in Selecting Legal Form
1) What willing to do?
2) How much control?
3) Share profits?
4) Special Taxes?
5) Skills Needed?
6) Business continuance?
7) Financing Needs?
8) Liability exposure?

Sole Proprietorship
• “…a business owned by only one person.”

Positive Characteristics of Sole Proprietorship
• Most common- 75%
• Easiest and cheapest
• Few government regulations
• Complete Control
• Get all earned income
• No special taxes

Negative Characteristics of Sole Proprietorship
• Supply all talents
• Death = dissolution
• Own Resources = financing
• Unlimited liability
Sole Proprietorship & Unlimited Liability

- Debt incurred by the company
- Owner's personal investment in the company
- Owner's personal liability for the company's debts

General Partnership

- “...a business owned jointly by two or more people.”

Characteristics of General Partnership

- 56% of businesses
- Some large = Big 4 accounting firms
- Relatively easy & inexpensive
- Shared responsibility & talent
- Financing easier
- Continuity not issue
- No special taxes
- More complex than sole proprietorship
- Disputes among partners
- Unlimited liability including for partner actions
- Shared decisions
- Share profits

Partnership Agreement

- Cash/Contribution of partners
- Division of income/loss
- Partner responsibilities
- Conditions for sale
- Conditions for dissolving
- Conditions for settling disputes

General Partnership & Unlimited Liability

- Debt incurred by the partnership
- Partner's personal investment in the partnership
- Partner's personal liability for the partnership's debts

Limited Partnership

- Permitted by law
- Partners
  - General: runs business and responsible for liability
  - Limited: limited involvement, losses = investment
Limited Partnership

- General Partner
- Limited Partner
- Limited Partner
- Limited Partner

Corporation

- “…a legal entity separate from the parties who own it.”

Characteristics of Corporation as Legal Entity

1) Enter into binding contracts
2) Buy/Sell property
3) Sue/Be sued
4) Responsible for all actions
5) Taxed

Types of U.S. Businesses

- Corporations 07%
- Partnerships 06%
- Individual proprietors 05%

Characteristics of Shareholders

- Invest money (stock or shares)
- Ownership % = % of total shares
- Elects Board of Directors

Board of Directors

1) Outside group of people
2) Responsible for governing
3) Oversees major policies & decisions
4) Sets goals
5) Holds management accountable
6) Hires/Evaluates CEO
7) Approves dividends
**Corporation**

- **Benefits**
  - Limited Liability
  - Financial Resources
  - Specialized management
  - Continuity & Transferability

- **Drawbacks**
  - Goals of management & shareholders differ
  - Costly to set up
  - Regulation & Gov’t Oversight
  - Double taxation

**Closely Held Corporation**

- “…stock is held by only a few individuals...not allowed to sell it to the general public.”

**Other Types of Business Ownership**

- **S-Corp.**
  - Tax rules = partnership/sole proprietorship
  - Limited liability protection
  - Qualify
    - <250 stockholders
    - U.S. resident/citizen
    - 100% agreement on decision to form

- **Limited-Liability Corp.**
  - Members not personally liable
  - Taxed once
  - No ownership restrictions

**Other Types of Business Ownership (cont’d)**

- **Cooperatives**
  - Owned/controlled by those using services
  - Shares financial success with members

- **Not-For-Profit Corp.**
  - Public service besides financial gain
  - Exempt from taxes
  - Contributions tax deductible

**Merger V. Acquisition**

- **Merger**- two companies combine to form new company
- **Acquisition**- purchase of one company by another

**Motives Behind Mergers & Acquisitions**

1) Gain complementary products
2) Attain new markets or distribution channels
3) Realize economies of scale
**Hostile Takeover**

- “...a takeover resisted by the targeted company’s management and its board of directors.”