

Organizational Types and Considerations

FOR A SMALL
BUSINESS



FDIC



Welcome



1. Agenda
2. Ground Rules
3. Introductions

Objectives

Identify general characteristics, advantages, and disadvantages of each of these organizational types for small businesses:

- Sole Proprietorship
- Partnerships
- Limited Liability Company (LLC)
- C-corporation
- S-corporation

What Do You Know?

What do you know or want to learn about organizational types for small businesses?



Organizational Types

What are the 5 common organizational types (also called “legal structures”)?

- Sole Proprietorship
- Partnership (general, limited, & LLP)
- Limited Liability Company (LLC)
- C-corporation
- S-corporation

Continued ...

Factors for Choosing an Organizational Type

- Taxation – Taxes on profits are paid through personal tax returns except for corporations
- Liability and Risk – Responsibility for harm to another person or property, or contract disputes
- Management – Decision-making authority
- Continuity and Transferability – How a business persists and how it is sold
- Expense and Formality – Costs, legal responsibility, degree of complexity

Discussion Point #1: Organizational Factors

Which organizational factors have the most impact on your business?



Sole Proprietorship

Business is one and the same as the owner

Advantages and Disadvantages

- Owner has unlimited personal liability
- Pass-through taxes – personal tax return
- Owner controls business
- Simplest form of organization
- Lowest cost to form
- Appropriate for small start-up



General Partnership

Business association of two or more people

Advantages and Disadvantages

- Owners have personal liability
- Pass-through taxation
- Shared risk and costs
- Simple to form, low cost

Create a
partnership agreement



Limited Partnerships and Limited Liability Partnerships

Advantages and Disadvantages

- General and limited partners – general partner runs business
- Pass-through taxation
- Requires a partnership agreement
- Liability will depend on the type of partner (general or limited)



Limited Liability Company (LLC)

Unincorporated hybrid entity, with traits of corporation & gen. partnership (or sole prop.)

Advantages and Disadvantages

- Greater flexibility than sole proprietorship and partnership in distributing profits (less restrictive than S-corporation)
- Limited liability – like corporation
- Pass-through taxation – like sole proprietorship or partnership



Corporation

Legal entity, created under the laws of a state, which has its own privileges and liabilities distinct from those of its members

Types:

- C-corporation
- S-corporation



Most businesses

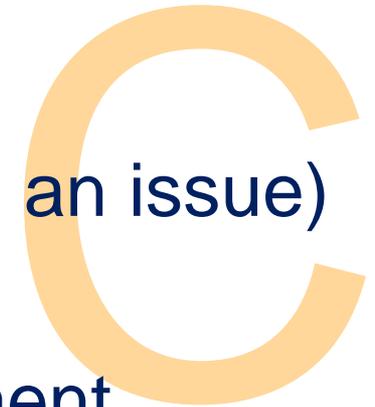
DO NOT need to incorporate

C-Corporation

Also called “regular corporation” (most common for larger companies)

Advantages and Disadvantages

- Limited liability
- Company is taxed (double taxation an issue)
- Complex to form
- Complex ownership and management
- Appropriate for a few specific reasons – otherwise, choose another organizational type



S-Corporation

Owner has limited liability of a corporate shareholder but pays income tax like a sole proprietor or partner

Advantages and Disadvantages

- Same as C-corporation except for pass-through taxation



Choosing an Organizational Type

How do I decide which structure is best for my business?

- Establish business plan, think about business
- Initial guidelines: Owner-operator?
Partnership? Multiple owners? Product with significant liability? Large venture with multiple owners and complex financing?
- Ask attorney
- Research through Small Business Administration and IRS websites

Discussion Point #2: Your Organizational Type

Which organizational type will be right for you and your new business?



Five Key Points to Remember

- The organization type impacts how you own and run your business
- Match your legal structure to business needs **i.e.**, Tax, Liability, Management, Continuity and Expense
- Most common small business type: Sole Proprietorship is same as the owner
- A Partnership includes pass through taxation and personal liability
- A business plan is the best way to determine the organizational structure right for your business

Summary

- What final questions do you have?
- What have you learned?
- How would you evaluate the training?



Conclusion

You learned about:

- Five organizational types (legal structures)
- Their characteristics, advantages, and disadvantages
- Choosing an organizational type