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Welcome

Welcome to the *Organizational Types and Considerations for a Small Business* training. By taking this training, you are taking an important step to building a better business. This guide accompanies the *Organizational Types and Considerations for a Small Business PowerPoint Presentation*.

Objectives

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

* Sole proprietorship
* Partnerships (general partnership, limited partnership and limited liability partnership)
* Limited liability company (LLC)
* C-corporation
* S-corporation

What Do You Know?  
Organizational Types and Considerations for a  
Small Business

Instructor: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

This form will allow you and your instructors to see what you know about business organizational types and considerations, both before and after the training. Please read each statement below. Circle the number that shows how much you agree with each statement.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Before Training | | | | | | After Training | | | | |
|  | **Strongly Disagree** | | **Disagree** | | **Agree** | **Strongly Agree** | **Strongly Disagree** | **Disagree** | **Agree** | **Strongly Agree** |
| 1. I can identify general characteristics of each of these organizational types for small businesses:  * Sole proprietorship * Partnerships * Limited liability company (LLC) * C-corporation * S-corporation | **1** | **2** | | **3** | | **4** | **1** | **2** | **3** | **4** |
| 1. I can identify advantages and disadvantages of each of these organizational types for small businesses:  * Sole proprietorship * Partnerships * Limited liability company (LLC) * C-corporation * S-corporation | **1** | **2** | | **3** | | **4** | **1** | **2** | **3** | **4** |

Pre-Test

Test your knowledge of organizational types and considerations before you go through the training.

1. **Which of the following best describes a sole proprietorship?**
   1. Business is one and the same as the owner
   2. Business is an unincorporated hybrid entity with traits of a corporation and a general partnership
   3. Business is an incorporated hybrid entity with traits of a limited liability company and a general partnership
   4. Business is sometimes called a “taxable corporation”
2. **What should be considered when selecting a business organizational type? Select all that apply.**
   1. Taxation
   2. Transferability of ownership
   3. Expense of creating the organizational type
   4. Your liability and risk
3. **Control of a sole proprietorship belongs entirely to the owner, who also assumes full risk of the business.**
   1. True
   2. False
4. **Which of the following is true about a general partnership?**
   1. Owners are subject to “pass-through” taxation
   2. Owners are personally liable for the debts of the business
   3. A partnership is a tax-reporting entity, not a tax-paying entity
   4. Both a. and b.
   5. All three: a., b., and c.
5. **Which of the following is true about a limited liability company (LLC)?**
   1. LLC owners are subject to “pass-through” taxation
   2. LLC owners are called shareholders
   3. An LLC is a hybrid business entity sharing characteristics of both a corporation and a partnership  
      (or sole proprietorship)
   4. Both a. and c.
   5. Both b. and c.
6. **Which of the following is true about a corporation?**
   1. A corporation is created under the laws of a state
   2. Corporation owners are called property-holders
   3. A corporation one of the simpler forms of business organization
   4. Both a. and b.
   5. Both a. and c.
7. **A C-corporation is sometimes called a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ corporation.**
   1. Taxable
   2. Regular
   3. Transferrable
   4. Limited liability
   5. T-
8. **The major difference between a C-corporation and an S-corporation is ownership liability and risk.**
   1. True
   2. False
9. **Organizational types are sometimes called “legal structures”.**
   1. True
   2. False
10. **The overall management of a corporation is the responsibility of which of the following?**
    1. Owner(s)
    2. Shareholders
    3. Board of directors
    4. State commissioner

Factors for Choosing an Organizational Type

The organizational type you choose for your business, sometimes called a “legal structure,” can impact your taxes and income. Some common organizational types are:

* Sole proprietorship
* General partnership
* Limited partnerships and limited liability partnerships
* Limited liability company (LLC)
* C-corporation
* S-corporation

As a business owner, you should match a legal structure to your business considering five key factors:

* Taxation
* Liability and risk
* Management
* Continuity and transferability
* Expense and formality

Taxation

A legal structure determines how you or your business is taxed. For four of the common organizational types (sole proprietorship, partnership, LLC, and S-corporation), the business as an entity does not pay taxes. Rather, profits and losses from the business pass through to the owner(s) and are reflected on the personal tax return(s) of the owner(s) (taxes are reported on the owners’ tax returns). Only C-corporations as a business entity pay taxes.

Liability and Risk

The liability and risk to which you are exposed when starting a business can generally be categorized as:

* Person or property
* Contractual

The person or property category, also called “tort risk,” is defined as intentional or unintentional harm to the person or property of another person. Some examples of tort risk are worker injury, product liability, automobile liability, and general liability, such as when somebody falls on a wet floor. Contractual liability and risk is associated with contract disputes with financers, vendors, and customers.

Legal structures determine who or what entity is legally responsible for liability for judgments if there is a successful lawsuit against the business. In particular, judgments against a business could result in the owner being held personally liable to pay for damages---all of the owner's personal assets (including the owner's house) could be seized to pay a judgment. New business owners commonly misunderstand liability factors and assume they always need to incorporate to protect themselves from liability. Insurance and well-written contracts can help manage risks to business owners.

Management

Each legal structure has its own decision-making authority.

Continuity and Transferability

This factor refers to how a business persists and how the business is sold to new ownership.

Expense and Formality

Expenses, complexity, and legal responsibilities differ between the different types of business structures.

Discussion Point #1: Organizational Factors

Consider and discuss organizational factors as they might apply to your business.

|  |
| --- |
| **Which organizational factors have the most impact on your business?** |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

Organizational Types

Each of the common organizational types is described using the five selection factors.

Sole Proprietorship

A sole proprietorship is a type of business entity that is owned and run by one individual and in which there is no legal distinction between the owner and the business. In other words, the business is one and the same as the owner.

A one-person company generally has three choices of legal structure: sole proprietorship, corporation, or an LLC.

When two or more persons operate a business for profit as co-owners, they generally have two additional options for their structure:

* General partnership
* Limited partnership

The sole proprietorship is the most common form of legal structure for small businesses.

**Taxation**

A sole proprietorship has pass-through taxation. The business itself does not file a tax return; rather, the income (or loss) passes through and is reported on the owner's personal tax return. Sole proprietors often need to make quarterly estimated tax payments.

**Liability and Risk**

The owner of a sole proprietorship has unlimited personal liability for any liabilities incurred by the business. You can manage much of this risk with insurance and sound contracts.

**Management**

Control of a sole proprietorship belongs entirely to the owner, who also assumes the full risk of the business.

**Continuity and Transferability**

A sole proprietorship lasts as long as the owner is alive and operating the business or until the business is sold. The owner can also sell business assets as well as transfer the business to a family member, often through the estate planning process.

**Expense and Formality**

The sole proprietorship is the simplest way of doing business. The costs to create a sole proprietorship are very low and very little formality is required. A sole proprietorship may be an appropriate form of business for many small and start-up business ventures.

General Partnership

A general partnership is an association between two or more people in business seeking a profit. Like a sole proprietorship, partnerships have pass-through taxation and owners are personally liable for the debts of the business. General partnerships can be created with little formality, but because more than one person is involved, a written contract stipulating the terms of the partnership, called a “partnership agreement,” should be created.

**Taxation**

Like a sole proprietorship, a partnership is a tax-reporting entity, not a tax-paying entity. A partnership must file an annual information return with the US Internal Revenue Service (IRS) to report the income and losses from its operations, but it does not pay federal income tax. A partnership "passes through" any profits or losses to its partners, which are divided based on the partnership agreement. Each partner includes his or her share of the partnership's income or loss on his or her tax return and may need to make estimated tax payments quarterly. Check with your state government for fees or taxes the state may charge partnerships.

**Liability and Risk**

Owners of a general partnership have unlimited personal liability. In general, each partner is jointly liable for the partnership's obligations. Joint liability means that each partner can individually be held responsible for the entire amount of an obligation of the partnership. However, as with the sole proprietorship, insurance and quality contract design can protect the partnership against most risks.

**Management**

Partners have equal management rights, unless otherwise stipulated in the partnership agreement.

**Continuity and Transferability**

A partnership exists as long as specified in the partnership agreement. The partnership agreement will determine the consequences of a partner dying or leaving the business. The business could remain in the hands of the remaining partners or be dissolved.

**Expense and Formality**

Again, general partnerships are similar to sole proprietorships in their legal creation and maintenance and thus have low expense and legal formality. New potential partners should create their partnership agreement with the help of an experienced attorney and accountant. Partnership agreements cover topics such as:

* Capital contributions
* Distribution of profits
* Management duties
* Bookkeeping
* Banking
* Termination

Limited Partnerships and Limited Liability Partnerships

Limited partnerships (LPs) and limited liability partnerships (LLPs) are two other organizational options for two or more people who plan to maintain a business for profit. Some jurisdictions only allow those who are licensed to practice in certain professions, such as law or accounting, to be eligible for the LLP structure.

**Taxation**

The tax treatment for LPs and LLPs is similar to general partnerships as discussed earlier. Profits and losses are passed through to the partners so the partners can reflect them on their individual tax return.

**Liability and Risk**

With the limited partnership structure, liability varies depending on the type of partner:

* A “general partner” has unlimited personal liability. The general partner is responsible for the everyday operations of the business.
* “Limited partners” are personally liable only up to their personal investment in the partnership. The limited partner must maintain a limited role in the day-to-day administration of the business. Legal counsel can advise what, if any, activities are permissible for a limited partner (besides contributing capital) to perform without losing the shield of limited liability.

With a limited liability partnership, personal liability for partners may be limited, but the rules vary considerably from state to state.

**Management**

The general partner in a limited partnership is responsible for the ordinary operations of the business. So, the limited partner does not control how the business will be run. The limited partnership structure generally encourages investors for short term projects, or for investing in capital assets. It is not often used for operating retail or service businesses.

**Continuity and Transferability**

How long a limited partnership exists depends on the partnership agreement. Partnerships may also be terminated if a partner becomes disassociated from the partnership, such as if a partner wants to leave the partnership.

**Expense and Formality**

Unlike a general partnership, the creation of a limited partnership or limited liability partnership requires a filing, possibly including the written partnership agreement, with the state. A limited partnership will likely also be required to include “limited partnership” or “LP” as part of its name, just as limited liability partnerships will be required to include that phrase or LLP in their name.

Limited Liability Company (LLC)

An LLC is similar to a corporation in some ways while similar to a general partnership or a sole proprietorship in other ways. An LLC is considered a type of unincorporated association, not a corporation, even though it is a business entity. Similar to a corporation, though, owners have limited personal liability for the debts and actions of the LLC. Other features of LLCs are more like a partnership, including the benefit of pass-through taxation and greater management flexibility in allocating profits.

Owners of an LLC are called members. Since most states do not restrict ownership, members may include individuals, corporations, other LLCs, and foreign entities. An LLC can have any number of members. Most states permit an LLC with only one owner, called a “single member LLC.”

To form an LLC, you file paper work, usually called “articles of organization,” with a state agency (often the secretary of state), pay a filing fee, and create an LLC operating agreement which sets out the rights and responsibilities of  
LLC members.

**Taxation**

Traditionally, a tradeoff has existed between liability and taxation. However, S-corporations and LLCs have changed this dynamic to the point where a business owner can now have limited liability and pass-through taxation.

Like a sole proprietorship or a partnership, an LLC is not considered separate from its owners for tax purposes. Instead, an LLC is what the IRS calls a “pass-through entity.” Business income passes through the business to LLC members, who report their share of profits, or losses, on their individual income tax returns. Each LLC member may be required to make quarterly estimated tax payments. The LLC business files only an informational tax return.

**Liability and Risk**

Like owners of a corporation, all LLC owners are protected from personal liability for business debts and claims, a feature known as "limited liability." If a business with limited liability owes money or faces a lawsuit, only the assets of the business itself are at risk. Creditors usually cannot reach the personal assets of the LLC owners, except in cases of fraud or illegality. However, owners of an LLC must take care to not “pierce the corporate veil,” which would expose the owners to personal liability. For example, LLC owners should not use a personal checking account for business purposes, and should always use the LLC business name (rather than the owner’s individual names) when working with customers.

**Management**

The operating agreement for an LLC sets forth how the business is managed. The owners of most small LLCs participate equally in the management of the business. This arrangement is called "member management." Alternatively, members can designate one or more owners, or even an outsider, to take responsibility for managing the LLC. Non-managing owners, such as family members who have invested in the company, share in LLC profits without participating in the direct management of the LLC.

**Continuity and Transferability**

LLC members, somewhat like partners in a partnership, cannot transfer their ownership. In most circumstances, an LLC does not possess continuity of life and is usually dissolved upon the death or retirement of any member. Some states require an LLC’s operating agreement to set the limit of the company’s existence to 30 years. Also, states may require majority or even unanimous member consent to transfer ownership to a new member.

**Expense and Formality**

One disadvantage of forming an LLC, instead of a partnership or a sole proprietorship, is that you pay a filing fee (ranging from $100 to $800) when you submit your articles of organization. On the positive side, articles of organization are short, simple documents. You may be able to quickly prepare articles of organization on your own using a form provided by your state's filing office. Even though an operating agreement may not be required by your state law, you should create one anyway. An LLC operating agreement sets out rules for the ownership and operation of the business, much like a partnership agreement or corporate bylaws. A typical operating agreement includes:

* Percent interest in the business for each member
* Member rights and responsibilities
* Member voting power
* Profit and loss allocation
* Management structure
* Rules for meetings and votes

Also included in operating agreements are “buy-sell" provisions, which determine what happens if a member wants to sell an interest in the company or when a member dies or becomes disabled.

Corporations (C-Corporation and S-Corporation)

A corporation is a legal entity that is separate and independent from the people who own or run the corporation. This means that the corporation itself, not the shareholders that own it, is held legally liable for the actions and debts incurred by the business. As a corporation, it has privileges such as the ability to enter into contracts but it also has certain responsibilities such as the payment of taxes.

Corporations are more complex than other business structures. There are also potentially costly administrative fees to create and maintain a corporation as well as more complex tax and legal requirements. Most businesses do not need to incorporate.Corporations are generally suggested for established, larger companies with multiple employees or when certain other factors apply, such as a corporation that sells a product or provides a service that could expose the business to sizable liability.

Forming a C- and an S-corporation is similar. For both, you file articles of incorporation with your secretary of state or, with some states, your state's corporations division. Filing articles of incorporation will usually cost no more than a few hundred dollars in fees. While the contents of articles of incorporation vary from state to state, most will establish  
the following:

* Company name
* Company purpose
* Company stock quantity and price
* Resident agent name and address
* Corporate officers names and addresses

Only after the articles of incorporation are filed and accepted by your state, does the corporation acquire legal existence. Once incorporated, the board of directors meets for the first time, followed by at least one annual meeting per year. The board of directors appoints officers who conduct the business of the corporation. Corporate ownership is more complex because a corporation has a legal identity separate from those of its owners. Corporations (both C- and S-corporations) designate ownership by issuing shares of stock. Thus, owners are shareholders who have received or purchased stock in the corporation.

Shareholders typically have various rights, including the right to do the following:

* Elect directors
* Receive information
* Inspect corporate records
* Vote on fundamental business decisions such as mergers and liquidations
* Share in dividend distributions

**Taxation**

For federal income tax purposes, a C corporation is recognized as a separate taxpaying entity. So, a C-corporation pays corporate income tax on any corporate profits. The individuals who own the corporation will pay personal income tax on the corporate profits distributed by the corporation to the owners. This creates the issue of “double taxation.”

By contrast, S corporations are corporations that elect to pass corporate income, losses, deductions and credit through to their shareholders for federal tax purposes. Shareholders of S corporations report the corporation’s income and losses on their personal tax returns and are assessed tax at their individual income tax rates. This allows S corporations to avoid double taxation on the corporate income.

**Liability and Risk**

A corporation is, strictly defined, a legal entity that is "immortal," that is, a corporation does not terminate upon the owner's death. Corporations can enter into and dissolve contracts, incur debts, sue, or be sued, own property, and sell property, as any individual may do. Corporation owners themselves have limited liability. While an individual may own all the shares in a corporation, that owner is not personally responsible for the corporation. With this limited liability, investors cannot lose more money than the amount they have invested in the corporation. Owners are not personally responsible for the debts and obligations of the corporation in the event these are not fulfilled. In other words, if a company with limited liability is sued, then the plaintiffs are suing the company, not its owners, or investors. Like the LLC (see above), care should be taken to not “pierce the corporate veil.” Personal checking accounts should not be used for business purposes, and the corporate name should always be used when interacting with customers.

**Management**

A corporation’s overall management is vested in the board of directors chosen by the shareholders. The officers handle the business’ day-to-day affairs under the board’s general direction.

In small corporations, the managers, owners, and the board of directors are often the same people. In larger corporations, those three roles can be held by different people. For example, corporate boards often place day-to-day management decisions in the hands of a chief executive officer (CEO), who may also be the board chairman or president. The CEO supervises other executives, including the following people:

* Vice presidents who oversee various corporate functions
* Chief financial officer (CFO)
* Chief operating officer (COO)
* Chief information officer (CIO)

**Continuity and Transferability**

The independent life of a corporation makes possible its continuation, and the relatively undisturbed continued operation of the business, regardless of incapacity or death of one or more stockholders. The corporation as a separate legal entity does not cease to exist if one or more of its owners die. A business’ corporate existence lasts as long as its shareholders decide the corporation should exist. Corporations can last for decades, through multiple generations of owners. Ownership of a corporation can be transferred by sale of the stock. Additional owners can be added either by the corporation selling stock or by current owners selling some of their stock.

**Expense and Formality**

Corporations are more complex entities to create, have more legal and accounting requirements, and are more complex to operate than sole proprietorships, partnerships, or LLCs. Investors are more easily attracted to corporations, but more complex ownership, reporting, and management requirements go along with this advantage. Disadvantages also include having to hold regular meetings of directors, keeping records of corporate activity, and maintaining the corporation's ongoing financial independence.

C-corporation

The C-corporation, also known as a “regular corporation,” is the most common form of business entity for larger companies.

**Taxation**

In a C-corporation, the company itself is taxed on business profits. The owners pay individual income tax on money they receive from the corporation as salary, a bonus, or as dividends. Double taxation is an issue with C-corporations since profits taxed at the corporate level are taxed a second time at the personal level as dividends.

**Liability and Risk**

S-corporations and C-corporations offer the same limited liability.

**Management**

Management and ownership structures are the same for both S-corporations and C-corporations.

**Continuity and Transferability**

C-corporation (and S-corporation) owners are shareholders. A corporation exists for as long as shareholders decide the company should exist. Ownership is transferred by the sale of stock.

**Expense and Formality**

The owners of S-corporations and C-corporations must follow similar requirements. In addition, a C-corporation files its own tax returns.

S-corporation

An S-corporation is a regular corporation that has elected "S-corporation" tax status. Forming an S-corporation lets you enjoy the limited liability of a corporate shareholder but you pay income taxes as if you were a sole proprietor or a partner.

An S-corporation is formed by making a “subchapter S” election when forming a C-corporation. To create an  
S-corporation, you must first create a regular corporation with your secretary of state's office or your state's corporations division. Then, to be treated as an S-corporation, all shareholders must sign and file IRS Form 2553.

**Taxation**

This is the major difference between an S-corporation and a C-corporation. In an S-corporation, all business profits "pass through" to the owners, who report them on their personal tax returns (as with sole proprietorships, partnerships, and LLCs). The S-corporation itself does not pay any income tax, although an S-corporation with more than one owner must file an informational tax return, like a partnership or LLC, to report each shareholder's portion of the corporate income.

**Liability and Risk**

S-corporations and C-corporations have the similar limited liability.

**Management**

Management and ownership structures are similar for both S-corporations and C-corporations.

**Continuity and Transferability**

S-corporation (and C-corporation) owners are shareholders. Corporations exist for as long as shareholders decide the company should exist. Ownership is transferred by the sale of stock.

**Expense and Formality**

The owners of S-corporations and C-corporations have to follow similar management requirements, such as having a board of directors.

Choosing an Organizational Type

Writing a business plan is the best first step in determining your business’s organizational structure. Your business plan will describe key factors impacting your business such as:

* Market
* Sales volume
* Management structure
* Location
* Marketing strategies
* Financing

In addition, some of questions to answer before deciding on a structure include:

* Who will own the business?
* Who else is involved with the business? Is this a partnership?
* Who will manage the business?
* Does your product or service carry significant liability risk?
* How much financing does your business require?
* Will you have outside investors?
* What is the sales growth potential?

For many owner-operators of small businesses, the sole proprietorship is the right organizational choice. A partnership might be the right choice for a business with multiple owners. Owners of businesses that sell products or provide services with significant liability risk should consider an LLC or S-corporation. A C-corporation would probably be the best choice for large ventures with multiple owners and complex financing. Get advice from an experienced business attorney. You will also find a wealth of information on the websites for the IRS and Small Business Administration (SBA).

Discussion Point #2: Your Organizational Type

Consider and discuss organizational types as they might apply to a startup business.

|  |
| --- |
| **Which organizational type will be right for you and your new business?** |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

Top Five Key Points to Remember

1. The organizational type you choose for your business impacts how you own the business, how you or your business pays taxes, how you get paid, and other important factors. Common organizational types are:
   * Sole proprietorship
   * General Partnership
   * Limited partnerships and limited liability partnerships
   * Limited Liability Company (LLC)
   * C-corporation
   * S-corporation
2. As a business owner, you match a legal structure to your business considering five key factors:
   * Taxation
   * Liability and risk
   * Management
   * Continuity and transferability
   * Expense and formality
3. A sole proprietorship is a type of business where the business is one and the same as the owner. The sole proprietorship is the most common form of organizational type for small businesses.
4. A partnership is an association between two or more people in business. Like a sole proprietorship, partnerships have pass-through taxation. With general partnerships, owners are personally liable for the debts of the business. General partnerships can be created with little formality, but because more than one person is involved, a written contract listing the terms of the partnership, called a “partnership agreement,” should be prepared.
5. Writing a business plan is the best first step in determining an organizational structure for your business. Your business plan should describe key factors impacting your business including:
   * Market
   * Sales volume
   * Management structure
   * Location
   * Marketing strategies
   * Financing

For Further Information

**Federal Deposit Insurance Corporation (FDIC)**

[www.fdic.gov](http://www.fdic.gov)

The FDIC preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least $250,000 by identifying, monitoring, and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails.

The FDIC encourages bank lending to creditworthy small businesses. The FDIC also encourages small businesses that may have an inquiry or concern about the availability of credit to contact the FDIC Small Business Hotline at 1-855-FDIC-BIZ or [www.fdic.gov/smallbusiness](http://www.fdic.gov/smallbusiness). Another FDIC website, [www.fdic.gov/buying/goods](http://www.fdic.gov/buying/goods), provides resources to assist small businesses that may want to do business with the FDIC.

**U.S. Small Business Administration (SBA)**

[www.sba.gov](http://www.sba.gov/)

SBA Answer Desk: 1-800-827-5722

The U.S. Small Business Administration (SBA) web site provides resources, answers to frequently asked questions and other significant information for small business owners.

**U.S. Financial Literacy and Education Commission**

[www.mymoney.gov](http://www.mymoney.gov)

1-888-My-Money (696-6639)

MyMoney.gov is the federal government's one-stop web site that provides financial education resources from more 20 federal agencies.

Post-Test

Now that you’ve gone through the course, see what you’ve learned.

1. **Which of the following best describes an LLC?**
   1. Business is one and the same as the owner
   2. Business is an unincorporated hybrid entity with traits of a corporation and a partnership
   3. Business is an incorporated hybrid entity with traits of a corporation and a partnership
   4. Business that is sometimes called a “corporate partnership”
2. **A corporation is a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, created under the laws of a state, having its own privileges and liabilities distinct from those of its members.**
   1. Shared estate
   2. Owner-operator partnership
   3. Formal sole proprietorship
   4. Separate legal entity
3. **A unique employer identification number (EIN) is required for all corporations.**
   1. True
   2. False
4. **Which of the following is true about a general partnership?**
   1. Each partner must make quarterly estimated tax payments to the IRS
   2. In general, each partner is jointly liable for the partnership’s obligations; partners can be sued as a group
   3. A partnership is a tax-reporting entity, not a tax-paying entity
   4. All three: a., b., and c.
   5. None of the above
5. **Which of the following is true about a sole proprietorship?**
   1. Owners are subject to “pass-through” taxation
   2. Surprisingly, it is one of the more complex forms of business organizational types
   3. There is no legal distinction between owner and the business
   4. Both a. and c.
   5. Both b. and c.
6. **Which of the following is true about a corporation?**
   1. A corporation is created under the laws of a state
   2. Owners are called shareholders
   3. Shareholders are not personally responsible for corporation debts and obligations
   4. Both a. and b.
   5. All three: a., b., and c.
7. **Ownership in a corporation can be transferred by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.**
   1. Filing with the state in which the corporation was first created
   2. Selling stock
   3. Changing the corporation into a limited liability company (LLC)
   4. Referring to its articles of organization, which will be unique for each corporation
8. **The term, “pierce the corporate veil,” refers to which of the following?**
   1. Combining a C-corporation and an S-corporation into one legal structure
   2. Creating shareholder value
   3. Combining business operations with personal actions, opening one to liability caused by a business
   4. Converting a corporation into a partnership
9. **An officer is a person voted by a corporation board of directors to manage day-to-day operations and to carry out policies.**
   1. True
   2. False
10. **Which of the following best defines the term “pass-through taxation?”**
    1. Paying taxes on income as an owner as opposed to the business paying taxes on profit
    2. Tax imposed on corporations for imported products
    3. Tax that is collected on income that has been previously taxed
    4. Tax imposed on a business that the business in turn adds to the price of its products

Evaluation Form

Please fill out this evaluation of the *Organizational Types and Considerations for Small Business* training.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Training Rating**   1. Overall, I felt the module was (check one):   [ ] Excellent  [ ] Very Good  [ ] Good  [ ] Fair  [ ] Poor  Please indicate the degree to which you agree by circling a number. |  | |  |  |  |  |
| **Strongly Disagree** | | **Disagree** | **Neutral** | **Agree** | **Strongly Agree** |
| 1. I achieved the training objectives. | **1** | | **2** | **3** | **4** | **5** |
| 1. The instructions were clear and easy to follow. | **1** | | **2** | **3** | **4** | **5** |
| 1. The PowerPoint slides were clear. | **1** | | **2** | **3** | **4** | **5** |
| 1. The PowerPoint slides enhanced my learning. | **1** | | **2** | **3** | **4** | **5** |
| 1. The time allocation was correct for this training. | **1** | | **2** | **3** | **4** | **5** |
| 1. The instructor was knowledgeable and well-prepared. | **1** | | **2** | **3** | **4** | **5** |
| 1. The participants had ample opportunity to exchange experiences and ideas. | **1** | | **2** | **3** | **4** | **5** |
|  |  | | | | | |
| Please indicate the degree of knowledge/skill by circling a number. | **None Advanced** | | | | | |
| 1. My knowledge/skill level of the subject matter **before taking the training**. | **1** | | **2** | **3** | **4** | **5** |
| 1. My knowledge/skill level of the subject matter **upon completion of the training**. | **1** | | **2** | **3** | **4** | **5** |
| **Instructor Rating**   1. Instructor Name: |  | | | | | |
| Please use the response scale to rate your instructor by circling a number. | **Poor** | **Fair** | | **Good** | **Very Good** | **Excellent** |
| 1. Made the subject understandable. | **1** | | **2** | **3** | **4** | **5** |
| 13. Encouraged questions. | **1** | | **2** | **3** | **4** | **5** |
| 14. Provided technical knowledge. | **1** | | **2** | **3** | **4** | **5** |

1. What was the most useful part of the training?

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1. What was the least useful part of the training and how could it be improved?

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