# **3 Basic Business Structures**

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*Submitted On March 19, 2013*

The type of legal structure you choose for your company is probably the most important of all the decisions you make when starting a business. Furthermore, it is also important when we talk about computing your taxes.

Not only will this decision have a huge influence on your tax payments, it will also affect the amount of paperwork your business has to do, your ability to earn profit and the personal liability you face.

As each business form comes with different tax consequences, you have to make your choice smartly. You should choose the structure that most closely matches your company's needs.

The following are the type of business structures:

**Sole Proprietorship**

Sole proprietorship is the simplest structure which only involves just one individual who owns, at the same time operates the entire business. For those who want to work alone, this structure can be the best for you.

You do not have to take any formal action to form a sole proprietorship. As long as you are the only owner of your business, this status automatically comes.

*Advantages of Sole Proprietorship:*

a. Easy an inexpensive to form - with this type of business structure, costs is minimal, with legal costs limited to obtaining the needed permits and license.

b. Total Control - you have complete control over your business decisions because you are the sole owner. You don't have to consult with anyone else when you need to make decisions or changes.

c. Easy Tax Preparation - your tax reporting requirements are easy to fulfil because there is no legal separation between you and your business. With sole proprietorship, you can get the lowest tax rate of all the business structures.

*Disadvantages of Sole Proprietorship:*

a. Unlimited personal liability - you can be personally liable for the liabilities and obligations of your company because there is no legal separation between the two parties.

b. Hard to raise capital - banks and other lending institution are hesitant to lend to a sole proprietor because they are perceived to have lack of credibility when it comes to repayment of the business fails.

**Partnership**

This structure is a type of business where there are two or more people who share ownership, management decisions,gains and losses.

*Types of Partnerships*

Generally, there are 3 types of partnership arrangements:

a. General partnerships - profits, liability and management duties are divided equally among partners. If there's an unequal distribution, the percentages assigned to every partner must be documented in the partnership agreement.

b. Limited Partnerships - are more complex than general partnership, which allows partners to have limited liability as well as limited input. These limits will depend upon each partner's investment percentage.

c. Joint ventures - for a limited period of time or for a single project, partners act as general partners. They can be recognised as ongoing partners if their venture continues but they must file as such.

**Corporation**

*Advantages*

Shareholders' personal assets are protected from the corporation's debts and actions. Plus, corporations file taxes separately from their owners. The owners only pay taxes on corporate profits paid to them in the form of dividends and bonuses. Any additional profits are awarded a corporate tax rate, which is commonly lower than a personal income tax rate.

*Disadvantages:*

A corporation is an independent entity owned by stakeholders. It is separate from its owners so it requires complying with more regulations and tax requirements. This structure is more expensive and complex than most of other business structures.

A corporation is formed under the laws of the state in which it is registered. You will probably need an assistance of an attorney to guide you when starting a corporation. In addition, there are increased paperwork and recordkeeping burdens associated with this business structure.

Deciding on what type of business structure to use for your business is very important. For professional business structure advice, go to [Bagetta & Co](http://www.tax-accounting-perth.com.au/accounting-taxation/business-structure-advice/), or visit<http://www.tax-accounting-perth.com.au> for more details.

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