

Three Common Forms of Business Structure



It is no secret that starting your own business comes with its fair share of decisions to make, alternatives to select and plans to determine. Many issues are involved in this planning and decision-making process. One major decision the business owner has to make is what form - or structure - the business will actually take.

There are three ways to structure the ownership of your business:

1) SOLE PROPRIETORSHIP:

By definition, a sole proprietorship has only one owner. This is the simplest form of business, as Mr. Doe and Doe Inc. are one and the same. Unless you make deliberate efforts to distinguish between your business and your personal finances, that separation may not be clear to everyone.

The advantage of this business structure is that you reap all the benefits of your enterprise. All income is your income. One major drawback is that you are personally liable for its obligations. All debts are your debts. You own all of the assets, but at your own risk. Also, since your personal finances come into play, this form of business may make it harder to raise money, as you may have to take multiple loans for which you would still be personally responsible.

2) PARTNERSHIP:

This form of business is the next step up in complexity as it involves more than one person or partner, and requires a bit more formality. It can be either a general partnership or a limited partnership.

In a general partnership, partners manage the business and its obligations together. All general partners work in the business and share in its income and debts. Sample partnership agreements available at BSBDC and on www.bsbdc.bm.

In a limited partnership, general partners operate the business while limited partners are silent investors who retain no control over the way the company is run. Limited partners are not subject to the same liabilities as the other general partners. They are also called "silent" partners, and the most they stand to lose are the funds they invested in the venture.

In both cases, general partners are personally responsible for the business' obligations. Let's take for instance, Jane and John Enterprises. Each general partner alone can act on behalf of the company on his or her own, take out loans and sign contracts. Should John make and act upon a business decision that Jane does not agree with, the business, (and subsequently, Jane), is bound by John's decision regardless.

Because of the misunderstandings that may ensue when forming a partnership, it is a good idea to start off with a partnership agreement that spells out each partner's responsibilities and benefits. Feel free to come to our offices or visit www.bsbdc.bm for a sample.

3) CORPORATION (LIMITED LIABILITY):

A corporation is an independent legal entity that is separate from its owner(s), a concept called the veil of incorporation. There is a clear separation between the owners' wealth and the assets of the business. As a result, your personal belongings will be protected from your business creditors. Sometimes, however, creditors do require business owners to sign a personal guarantee for the company's obligations. As a result, Mr. Smith will still be liable for the debts of Smith Inc. in case the corporation cannot honour them.

On the other hand, corporations find it easier to raise finances. In order to be provided with more money, they simply sell stocks to the public. They also have an unlimited life. Unlike sole proprietorships and partnerships, a corporation does not dissolve if one owner becomes unavailable to carry on business indefinitely. Its shares simply transfer to new owners.

This form of business is the highest in complexity. Therefore, it is heavily regulated and more costly to form than a sole proprietorship or a partnership. Running a corporation also entails more extensive record-keeping.

If there are any changes in laws or in circumstances, make sure you reassess your form of business to make sure you are taking advantage of the structure most beneficial to you.