

Types of Business Organizations

Name: _____ Date: _____

Directions: This lesson has discussed the cost and benefits of three different types of business organizations: sole proprietor, partnership and corporation. Following is a list of key factors that a new owner(s) needs to consider when deciding what type of business organization is best for his or her situation. Your assignment is to explain how two of these factors would be either a cost or benefit in each of the three types of organizations.

1. The factor is the financial resources needed to start and expand a business. Decide whether this factor is a cost or benefit to a sole proprietor, a partnership and a corporation, and give a brief explanation for your answer.

Sole Proprietor: *Cost because sole proprietors generally must rely on their financial resources to start and expand their business.*

Partnership: *This could be a benefit if one of the partners has access to more financial resources. Or, it could be a cost because most lenders are hesitant to loan money to partnerships.*

Corporation: *Benefit. Lenders are generally more willing to loan to corporations because it's an indication that investors are more serious about the business; also the company can sell stock to raise additional funds.*

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2. Select one of the other factors listed, determine if it is a cost or benefit in each organization, and briefly explain your answer. Choose one of the below and write your choice on "My choice is _____".

- Their level of expertise starting and managing a business
- Their willingness to share decisions and profits with others
- The level of liability they are willing to accept
- The tax implications related to future income or profits from the business
- How long they want to stay involved in the business as either managers or investors
- How concerned they are about what will happen to the business if they decide to leave

My choice is _____

- Their level of expertise starting and managing a business

Sole Proprietor: *Cost because level of expertise is totally based on one person.*

Partnership: *Can be a benefit if the partners have different areas of expertise, such as marketing and accounting or product development and sales.*

Corporation: *Benefit because owners can hire people with the expertise needed to manage the business. (While they can hire in other types of organizations too, it is more difficult because the owners have all the liability for decisions made.)*

- Their willingness to share decisions and profits with others

Sole Proprietor: *Benefit if the owner wants to make all decisions and keep all profits. Cost if the owner does not want to make all decisions.*

Partnership: *Benefit if the partners want to have help making decisions and are content to share profits. Cost if one person wants total control and the other(s) want to be involved.*

Corporation: *Benefit if the partners want to have help making decisions and are content to share profits. Cost if one person wants total control and the other(s) want to be involved.*

- The level of liability they are willing to accept

Sole Proprietor: *Cost because the sole proprietor him/herself has all the liabilities if something goes wrong or someone is injured.*

Partnership: *Cost because each of the partner has all liabilities if something goes wrong or someone is injured.*

Corporation: *Benefit because the company is treated like an individual in the eyes of the law, giving it the right to be sued or held responsible if anything goes wrong or someone is injured.*

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- The tax implications related to future income or profits from the business

Sole Proprietor: *Cost because all future income and profits are taxed as personal income, which is generally higher than corporate tax rates.*

Partnership: *Cost because all future income and profits are taxed as personal income, which is generally higher than corporate tax rates.*

Corporation: *Benefit because the company pays corporate tax rates on its profits, not personal income tax rates.*