

Sole Proprietorship

Advantages

Easy to form and the simplest way of doing business

Owner has complete control

Owner receives all the income

Avoids double taxation

Disadvantages

Unlimited liability for all acts and debts of the business

Fewer tax benefits

The business dies when you die

Can't expand the business through new owners and use of their money

General Partnership

Advantages

Fairly simple to set up

Combination of resources & talents

Personal tax benefits

Disadvantages

More recordkeeping requirements

**Unlimited liability (including for
each other's actions)**

Dissolution upon death of a partner

**Partnership profits taxed as income
to the partners**

Possible friction between partners

Limited Partnership

Advantages

**General partners can provide
additional source of funding**

Limited partners have limited liability

**Allocation of income and losses to
owners (no business income tax)**

Finite existence

Disadvantages

Initial organizational cost high

**Limited partners have no control...
might be hard to find partners to
invest without having authority**

**Compliance with state and federal
securities laws**

Corporation

Advantages

Limited liability of shareholders

Existence continues even if death of owner or sale of stock

Flexibility of financing through outside investors

Transfer of ownership by sale/gift of stock

Tax benefits available to corporate employees

Disadvantages

Initial organizational cost high

Annual reporting requirements

Double taxation if paying dividends

S Corporation

Advantages

Same as for corporation

Taxed at the individual shareholder level

Disadvantages

Except for the tax consequences, same as for corporation

With some exceptions, only individuals can be shareholders

Limited number of shareholders

Limited to one class of stock

Must use calendar year

Limited Liability Company

Advantages

Limited liability without limits on management participation

Flexible ownership and capital structure

No double taxation

Allocation of tax benefits among members

Disadvantages

Initial organizational cost high

Poor tax treatment of fringe benefits

Ownership transfer must be governed by buy/sell provisions

Cooperatives

Advantages

Members own and control the business

Potential for collective efforts to improve marketing and add value to products

Shared expertise in operation is a potential benefit

Disadvantages

Lengthy process by members to set up (bylaws, major policy issues, direction, board)

Effectiveness depends on members dedication to long term

Group decision-making and “shared ownership” can be cumbersome

Government Regulations

Which Affect YOUR Business?

General Business Taxation

- ☐ **Personal Income Tax**
- ☐ **Business Income Tax**
- ☐ **Sales Tax**
- ☐ **Property Tax**
- ☐ **Business License Fees**

Employee Regulations

- ☐ **Payroll Tax/Withholding**
- ☐ **Employee vs. Independent Contractor**
- ☐ **Wage and Hour Regulations**
- ☐ **Hiring Regulations**
- ☐ **OSHA**

Consumer Protection Regulations

- ☐ **Warranties**
- ☐ **Uniform Consumer Credit Code**

Government Regulations—cont'd

Which Affect YOUR Business?

Commerce Regulations

- ☐ Professional Licenses
- ☐ Business Registration
- ☐ Uniform Commercial Code

Zoning Regulations

- ☐ Home-based business
- ☐ Signage
- ☐ Manufacturing / retail

Bankruptcy Regulations

- ☐ How much protection?

Transportation Regulations

- ☐ Professional Licenses
- ☐ Customs

Environmental Regulations

- ☐ Waste disposal
- ☐ Storage tanks
- ☐ Siting / Buying property

IRS 20-Point Checklist—Independent Contractor or Employee?

Primary Factors

Yes No

- | | | | |
|----|---|--------------------------|--------------------------|
| 1. | Does the service recipient have the right to require compliance with significant instructions? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. | Does the service recipient have the right to set the hours of work? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. | Does the service recipient have the right to set the order or sequence of services to be performed? | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. | Does the service recipient have the right to discharge the service provider? | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. | Does the service provider have the right to hire, pay and supervise assistants as the nature of the work requires? | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. | Does the service provider have no ability to realize a profit or loss? | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. | Does the service provider have no investment in significant tools, materials and other equipment when such items are necessary to accomplish the task and are customarily provided by the service provider? | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. | Does the service provider have no significant investment in facilities when they are necessary to accomplish the task and they are customarily provided? | <input type="checkbox"/> | <input type="checkbox"/> |

Secondary Factors

- | | | | |
|-----|---|--------------------------|--------------------------|
| 9. | Does the service recipient train the service provider? | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. | Does the service recipient have the right to require oral or written reports? | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. | Does the service recipient pay by the hour, week or month? | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. | Does the service recipient pay for business and/or travel expenses? | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. | Does the service recipient have the right to require personal service? | <input type="checkbox"/> | <input type="checkbox"/> |
| 14. | Does the service provider usually not work for more than one firm at a time? | <input type="checkbox"/> | <input type="checkbox"/> |
| 15. | Does the service provider maintain a continuing relationship with the service recipient? | <input type="checkbox"/> | <input type="checkbox"/> |
| 16. | Does the service provider devote substantially full time to the service recipient? | <input type="checkbox"/> | <input type="checkbox"/> |
| 17. | Does the service provider have the right to terminate the relationship at any time without incurring liability? | <input type="checkbox"/> | <input type="checkbox"/> |
| 18. | Is the service provider integrated into the service recipient's business? | <input type="checkbox"/> | <input type="checkbox"/> |
| 19. | Does the service provider not make his or her services available to the public on a regular and consistent basis? | <input type="checkbox"/> | <input type="checkbox"/> |
| 20. | Does the service provider work only on the service recipient's property or designated location? | <input type="checkbox"/> | <input type="checkbox"/> |

Note:

- “Yes” suggests employee status. “No” suggests independent contractor status.
- More weight should be given to the first eight questions than the last twelve.
- If you answered “yes” to any of these 20 questions, proceed with caution. Consult an accountant or tax lawyer who is familiar with the problems raised by hiring individuals as independent contractors.

Basic Contract Terms

- ✓ **Performance.** What actions must you complete?
- ✓ **Price.** How much, in what currency?
- ✓ **Place of delivery.** Where, by what method? Who's liable?
- ✓ **Time to perform.** When are goods or services due?
When is payment due?
- ✓ **Legal remedies.** How can you enforce the contract?

What's in a Lease?

- **What are you leasing?**
- **True cost of the lease**
- **Payment “escalators”**
- **Permitted uses**
- **Lease responsibilities**
(insurance, maintenance, etc.)
- **Renewal options**
- **Purchase rights**
- **Right of first refusal**
- **Exclusivity**

Protecting Your Intellectual Property

What needs protecting?

☐ Patent

Prevents others from copying and selling your invention. Costly to enforce.

☐ Trademark

Words, logos, symbols, that represent your company.

☐ Copyright

Protects work that is independently created, such as songs, textbooks, creative writing. Inexpensive to register.

☐ Trade secrets

Secret processes, methods and information may be protected under Uniform Trade Secrets Act.