

Chapter 18
Business Enterprises: Noncorporate Business Entities

1 Source: Bohlman/Dundas, The Legal, Ethical, & International Environment of Business

Sole Proprietorship

- Person merely starts doing business
- No state regulation of sole proprietorships except licenses
- Unlimited liability
- Reports and pays taxes on income earned
- Exists as long as the owner is working
- Total management and control of the business
- Obtain loans based on participant's personal worth

4 Source: Bohlman/Dundas, The Legal, Ethical, & International Environment of Business

Noncorporate Forms of Business

- Sole proprietorship
- Partnership
- Limited partnership
- Limited liability company
- Limited liability partnership

2 Source: Bohlman/Dundas, The Legal, Ethical, & International Environment of Business

Partnerships

- Two or more people simply conduct business for profit
- All states have legal requirements for LP, LLC, and LLP
- Unlimited liability (LP, LLC, and LLP have limited liability)
- Income or deductions pass from the legal entity to the investor, who pays the income tax
- Dissolves whenever a new partner is added or dies or leaves the partnership
- Each partner has equal management and control, in the absence of an agreement to the contrary
- Obtain loans based on participants' personal worth

5 Source: Bohlman/Dundas, The Legal, Ethical, & International Environment of Business

Factors to Consider When Comparing Business Enterprises

- Difficulty of formation
- Liability
- Tax considerations
- Continuity and ability to transfer ownership
- Management
- Financing
- Licenses
- Location

3 Source: Bohlman/Dundas, The Legal, Ethical, & International Environment of Business

General Partnerships

- Established by the Uniform Partnership Act
- Is an association of two or more persons to carry on as co-owners of a business for profit
- General partnerships arise by
 - Partnership agreements
 - Oral
 - Written
- Partnerships treated as a legal entity for some purposes
 - Transfer of property
 - Lawsuits

6 Source: Bohlman/Dundas, The Legal, Ethical, & International Environment of Business

Partnerships

- Capital requirements
 - Funded through each partner's capital contribution
- Management and control
 - Equal right to management and control
 - Agent for the partnership
 - Fiduciary relationship with the other partners
 - No right to compensation
 - Any act of a partner that appears to carry out partnership business binds the partnership to that act
- Liability of old and new partners
 - Each partner personally responsible for the entire amount of the partnership's debts
- Duration and termination of partnerships
 - Unlimited unless limited by agreement
 - Dissolution can be voluntary (such as addition of a new partner, withdrawal of a partner) or involuntary (court ordered such as if partnership activities become illegal)

7

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Limited Liability Companies

- LLCs provide the limited liability and tax attributes of a partnership
- Owners are called members, and LLCs are managed either by members or managers
- LLCs are taxed like a partnership
- Members are liable up to the amount of their investment
- LLCs exist in perpetuity

10

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Limited Partnerships

- Consist of at least one limited and one general partner
- LPs must file a certificate that becomes part of the public record, although partners can enter into a more detailed agreement
- Profits are shared according to the agreement, and losses are limited to the amount of capital contribution
- General and limited partners can contribute capital to the venture and make loans to it

8

Source: Bohlman/Dundas, The Legal, Ethical, & International Environment of Business

Limited Liability Partnerships

- Have no general partners
- Judgments limited to recovery from the partnership assets
- State statutes authorize an LLP's creation

11

Source: Bohlman/Dundas, The Legal, Ethical, & International Environment of Business

Limited Partnerships

- Control of limited partnerships
 - General partners—management and control
 - Limited partners—no management and control
- Liability in limited partnerships
 - General partners and limited partners up to the amount of their investment
- Tax consequences
 - Tax consequences similar to a partnership and files an informational return
 - Often used as tax shelters and are frequently targeted by the IRS

9

Source: Bohlman/Dundas, The Legal, Ethical, & International Environment of Business

International Considerations

- Most western countries recognize two forms of organizations that provide limited liability for its owners:
 - Corporations for profit
 - Limited liability companies

12

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Summary

- Factors to Consider When Comparing Business Enterprises
- Sole Proprietorship
- Partnerships
- General Partnerships
- Limited Partnerships
- Limited Liability Companies
- Limited Liability Partnerships
- International Considerations

13

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