1. Sole Proprietorship

A sole proprietorship also referred to as a **sole trader** or a **proprietorship** is an unincorporated business that has just one owner who pays personal income tax on profits earned from the business.

A sole proprietorship is the easiest type of business to establish or take apart, due to a lack of government regulation. As such, these types of businesses are very popular among sole owners of businesses, individual self-contractors, and consultants. Many sole proprietors do business under their own names because creating a separate business or trade name isn't necessary.

A sole proprietorship is the **simplest** and most **common structure** chosen to start a business. It is an unincorporated business owned and run by one individual with no distinction between the business and you, the owner. You are entitled to all profits and are responsible for all your business's debts, losses and liabilities.

Understanding a Sole Proprietorship

A sole proprietorship is very different from a corporation (corp.), a limited liability company (LLC), or a limited liability partnership (LLP), in that no separate legal entity is created. As a result, the business owner of a sole proprietorship is not exempt from liabilities incurred by the entity.

For example, the debts of the sole proprietorship are also the debts of the owner. However, the profits of the sole proprietorship are also the profits of the owner, as all profits flow directly to the business's owner.

Advantages of a Sole Proprietorship

- **Easy and inexpensive to form**: A sole proprietorship is the simplest and least expensive business structure to establish. Costs are minimal, with legal costs limited to obtaining the necessary licenses or permits.

- **Complete control**. Because you are the sole owner of the business, you have complete control over all decisions. You aren't required to consult with anyone else when you need to make decisions or want to make changes.

- **Easy tax preparation**. Your business is not taxed separately, so it's easy to fulfill the tax reporting requirements for a sole proprietorship. The tax rates are also the lowest of the business structures.

Disadvantages of a Proprietorship

- **Unlimited personal liability**. Because there is no legal separation between you and your business, you can be held personally liable for the debts and obligations of the business. This risk extends to any liabilities incurred as a result of employee actions.

- **Hard to raise money**. Sole proprietors often face challenges when trying to raise money. You cannot sell stock in the business, which limits investor opportunity. Banks are also hesitant to lend to a sole proprietorship because of a perceived additional risk when it comes to repayment if the business fails.

- **Heavy burden**. The flipside of complete control is the burden and pressure it can impose. You alone are ultimately responsible for the successes and failures of your business.

Some examples of Sole proprietorship form of Business:

Sole Proprietorship examples include small businesses, such as a single person art studio, a local grocery, or an IT consultation service**.** The moment you start offering goods and services to others, you form a Sole Proprietorship. It's that simple. Legally, there is no distinction between you and your business. Other examples include lawyer, personal clinic of Doctors, a person who sells newspapers in streets, single owner retail stores etc.

2. Partnership

"Partnership" is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

Persons who have entered into partnership with one another are called individually "partners" and collectively "a firm", and the name under which their business is carried on is called the "firm name".

Advantages of Partnerships

Partnership business has several advantages which makes it an attractive form of business. Below are the most important advantages.

Advantages of Partnership

1. Collaboration

In comparison with the sole proprietorship, in which the owner manages everything, a partnership form of business offers the benefit of collaboration. Running a business with your partners allows you to draw on the resources and ability of these co-partners. On the other hand, running a business on your own can be a challenge especially when you don't have all the expertise to run a business. So, when you have partners to share your responsibilities, you can share the risk, create mutual support, lighten your workload and maintain balance in your life.

2. Tax Advantage

The profits of a partnership pass to its owners, who report the profits as their personal income for tax purposes. Hence, profits are taxed only once rather than twice, as is the case with corporations. In the case of corporations, the profits are taxed first at the corporate level and then at the individual level when the dividend is distributed. So, partners enjoy more income out of the earnings of their business as against shareholders of a corporation.

3. Business Confidentiality

Partnership firms are able to keep their business reports confidential. Unlike corporations, the law does not require partnerships firms to publish business reports and financial statements in the public domain. These reports and financial statements have information about your sales growth, profit margins, business strategies, asset allocation and many other things that can help your competitors to compete with you effectively.

4. More Partners, More Funds

Partners usually have an easier time getting funds than many other forms of business. First, since there are more individuals, you have a greater number of sources of funds. Second, since the profits of a partnership firm are taxed only once, partners get a higher income in their hands. This opens the possibility of partners investing more money out of their income as capital for the business. Third, since there are a greater number of individuals who run the business and hence, greater experience than a sole proprietorship firm, investors will perceive less risk in the business and so, they will be more likely to invest in a partnership firm.

5. Easier to Form and Run

In comparison with corporations, a partnership is easier to form and run. While forming a corporation is a time consuming and hectic process, with lots of documents to be submitted and agreements to be signed, forming a partnership is pretty simple with very few documents to be submitted to the regulatory bodies. Another major limitation of a corporation is that the laws governing them in the US vary from state to state. Also, these laws keep changing. In contrast, the federal Uniform Partnership Act provides a consistent set of laws across the US which makes it easier to know them and to comply with them.

Disadvantages of Partnerships

Along with the lucrative advantages which a partnership firm offers you, there are some disadvantages of such a form of business. So, if you are considering to get into partnership business, these disadvantages must be considered.

1. Unlimited Liability

The members of a partnership firm get exposed to unlimited liability for the performance of the business. This means that if the business takes a lot of debt and then becomes incapable to pay them, or if an employee or a customer decides to sue the business, the partners run the risk of losing their personal assets to pay for the damages done by the business. Hence, before getting into a partnership business, it is advisable to determine the assets that will be put at risk. If you possess valuable personal assets that you will not invest in the business, you may consider some other form of business which protects you from unlimited liability.

2. Differences and Conflict

By getting into partnership business, you lose your autonomy to make decisions. With each partner having a say in the decisions, each partner must show flexibility and the ability to compromise. Despite compromising, some conflict of interest among the partners is always possible e.g., some partners will be dedicating every moment of their lives to growing and developing the business and so they will expect others to do the same. Others, however, may want a balance in their life. At other times, some partners may have higher risk-taking ability than others. So, partners with higher risk-taking ability may recommend a risky project which others may find uncomfortable. Hence, the partnership business is full of differences and conflicts on interests among the members which may never get resolved.

3. Slower Decision Making

In comparison with sole proprietorship business, the decision-making process is slower in partnerships. Since all the partners are a part of the business, you will need to consult and discuss matters with other partners before taking a decision. In case other partners disagree with your decision, more time will pass in negotiating and building consensus. Sometimes, this may result in missing opportunities where the decision had to be taken on the spot. Also, this shared decision making may frustrate a partner whose inputs always get rejected by others.

4. Lack of Continuity

Unlike corporations, which exist perpetually, continuity of business is a question in case of partnerships. General partnership dissolves if one of the partners dies, retires or withdraws from the business. This may increase the risk of investing in partnership enterprises for those investors who invest with a long-term perspective. Partners, however, can overcome this limitation by adding a provision in the partnership agreement which allows buying out of a partner's share in case he or she wants to withdraw or if the partner dies. This transfer of ownership, however, also comes with some legal restrictions which can again put the continuity in question.

5. Joint Accountability (Mutual Agency)

In a general partnership, each partner is liable, not only for his actions but for the actions of the other partners as well. This implies that, if one of the partners commits fraud or any other illegal activity, the other partners will also be liable for his actions especially in case the firm is given a monetary penalty. So, it becomes important for all the partners to know each other well and develop trust among themselves before getting into a partnership business.

3. Corporation:

A corporation is a legal entity that is separate and distinct from its owners. Under law, corporations possess many of the same rights and responsibilities as individuals. They can enter contracts, loan and borrow money, sue and be sued, hire employees, own assets, and pay taxes.

Advantages of a Corporation:

A corporation is a legal entity, organized under state laws, whose investors purchase shares of stock as evidence of ownership in it. The advantages of the corporation structure are as follows:

- ***Limited liability*.** The shareholders of a corporation are only liable up to the amount of their investments. The corporate entity shields them from any further liability, so their personal assets are protected. This is a particular advantage when a business routinely takes on large risks for which it could be held liable.

- ***Source of capital*****.** A publicly-held corporation in particular can raise substantial amounts by selling shares or issuing bonds. This is a particular advantage when its shares trade on a stock exchange, where it is easier to buy and sell shares.
- ***Ownership transfers*****.** It is not especially difficult for a shareholder to sell shares in a corporation, though this is more difficult when the entity is privately-held.
- ***Perpetual life*****.** There is no limit to the life of a corporation, since ownership of it can pass through many generations of investors.
- ***Pass through*****.** If the corporation is structured as an S corporation, profits and losses are passed through to the shareholders, so that the corporation does not pay income taxes.

What are the Disadvantages of a Corporation?

Disadvantages of a corporation:

- ***Double taxation*****.** Depending on the type of corporation, it may pay taxes on its income, after which shareholders pay taxes on any dividends received, so income can be taxed twice.
- ***Excessive tax filings*****.** Depending on the kind of corporation, the various types of income and other taxes that must be paid can require a substantial amount of paperwork. The exception to this scenario is the S corporation, as noted earlier.
- ***Independent management*****.** If there are many investors having no clear majority interest, the management team of a corporation can operate the business without any real oversight from the owners.

A private company has a small group of investors who are unable to sell their shares to the general public. A public company has registered its shares for sale with the Securities and Exchange Commission (SEC), and may also have listed its shares on a stock exchange, where they can be traded by the general public. The requirements of the SEC and the stock exchanges are rigorous, so comparatively few corporations are publicly-held.