

# FINDING YOUR IDENTITY

## Legal Forms of Business Organization

LEGAL STRUCTURE	ADVANTAGES	DISADVANTAGES
<b>Sole Proprietorship</b>	<ul style="list-style-type: none"> <li>~ Ease of formation.</li> <li>~ Sole ownership, control, and decision making.</li> <li>~ Flexibility in responding to business requirements.</li> <li>~ Minimal legal restrictions.</li> <li>~ Minimal start-up and continuation costs.</li> </ul>	<ul style="list-style-type: none"> <li>~ Unlimited liability</li> <li>~ Difficult to access to capital and financing</li> <li>~ Limited viewpoint or experience may constrict decision making</li> <li>~ Hard to attract some highly skilled, entrepreneurial employees</li> <li>~ Continuity of business difficult upon illness or death of owner</li> </ul>
<b>General Partnership</b>	<ul style="list-style-type: none"> <li>~ Ease of formation.</li> <li>~ Flexibility in management still possible.</li> <li>~ Broader management base than sole proprietorship.</li> <li>~ Direct share of profits by partners.</li> <li>~ Profits and losses are available to partners on their individual returns.</li> <li>~ Minimal legal constraints and reporting to government.</li> </ul>	<ul style="list-style-type: none"> <li>~ Each partner has unlimited liability for all debts and liabilities of business. <ul style="list-style-type: none"> <li>* Liability for debt can be minimized by electing Limited Liability Partnership status, which requires annual filings and expenses.</li> </ul> </li> <li>~ Each partner acting alone has power to bind business and other partners.</li> <li>~ Profits and losses flow through to individual partners, which may be disadvantageous.</li> <li>~ Continuity of business difficult upon death or withdrawal of partner.</li> </ul>
<b>Limited Partnership</b>	<ul style="list-style-type: none"> <li>~ Obtain equity without surrendering control to investors.</li> <li>~ Good structure to raise investment capital.</li> <li>~ Business continues without interruption upon death of limited partner or transfer of limited partner interest.</li> <li>~ Direct participation in profits.</li> <li>~ Limited partner's risk is limited.</li> <li>~ Tax advantages are the same as a general partnership.</li> </ul>	<ul style="list-style-type: none"> <li>~ Greater formality required in organizing, which increases costs.</li> <li>~ Greater reporting requirements.</li> <li>~ Limited partners have no voice in management.</li> <li>~ One general partner is required to assume unlimited liability.</li> <li>~ Securities laws apply.</li> <li>~ Death or withdrawal of general partner can cause dissolution of partnership.</li> <li>~ Same tax disadvantages as general partnership.</li> </ul>

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LEGAL STRUCTURE	ADVANTAGES	DISADVANTAGES
<b>Corporation</b>	<ul style="list-style-type: none"> <li>~ Limited investor liability.</li> <li>~ Transferability of ownership.</li> <li>~ Perpetual existence - not affected by death or disability of any shareholder.</li> <li>~ Access to investment capital.</li> <li>~ Delegated authority to hired management.</li> <li>~ Tax favored fringe benefits - although changes in tax laws are minimizing the differences with other forms of doing business.</li> <li>~ S Corporation election to alter tax impact (S Corporation tax functionality is very similar to partnership and eliminates double taxation issues).</li> </ul>	<ul style="list-style-type: none"> <li>~ Relatively high costs of organizing.</li> <li>~ Regular reporting requirements to government.</li> <li>~ Statutory formalities must be observed for decision making and action.</li> <li>~ Control is vested in board of directors, not shareholders.</li> <li>~ Securities laws apply.</li> <li>~ Individual shareholders are frequently called upon to guarantee corporate debt, thus limiting the benefit of limited liability.</li> <li>~ Must qualify to do business in other states.</li> <li>~ Double taxation.</li> <li>~ Dissolving the corporation can be expensive.</li> </ul>
<b>Limited Liability Companies (LLC)</b>	<ul style="list-style-type: none"> <li>~ Limited liability of members.</li> <li>~ Free transferability of ownership without affecting continued existence (this is different than "admission" to LLC).</li> <li>~ Perpetual existence (if elected) - not affected by death or disability of any member (but member ceases to be a member upon death).</li> <li>~ Structure for transacting business that involves members - on a day to day basis or like a corporation.</li> <li>~ Option on method of taxation - corporation or partnership treatment.</li> <li>~ Flexibility in raising capital through sale of various securities (classes of membership interest).</li> <li>~ New Mexico allows for single member LLC, where some states don't recognize.</li> </ul>	<ul style="list-style-type: none"> <li>~ Relatively high costs of organizing (requires articles like a corporation and an operating agreement like a partnership).</li> <li>~ Regular reporting requirements to government.</li> <li>~ Control can be vested in less than all members (this could be an advantage as well).</li> <li>~ Securities laws apply.</li> <li>~ Individual members are frequently called upon to guarantee debt, this limited benefit of limited liability.</li> <li>~ New entity - many undecided legal and tax issues.</li> </ul>

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