

Sole Traders, Partnerships, and Registered Companies Compared

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Business Structure and the Choice of Legal Form

When a person starts a business, the first and foremost question that comes to mind is what kind of business he wants to set up. The Type of business has a direct relation to the taxes to be paid and, later on, has a great impact on the expansion and growth of a business.

There are different types of business entities in terms of ownership, liability, and type of businesses, including Sole Proprietorship, Partnership, and Registered companies. Limited Liability Company Business Corporation /Public Ltd companies (GASME, n.d.).

Sole Proprietorship, Control, and Unlimited Liability

The simplest form of business is the sole proprietorship. One person is the owner and controller of the business. He is solely responsible for all the debt and liabilities and profit and loss of the business. A sole proprietor has to comply with the state licensing requirements and the local regulations.

One of the advantages of the sole proprietor is the authority to retain the business for as long as possible to sell it to anyone or transfer it to his heirs. The sale or transfer of the business is at the sole discretion of the proprietor. It is easy to start a sole proprietor business as it requires less paperwork and formalities. It also requires a lesser amount of money to start a business as compared to partnership and registered companies because of the lesser legal costs and formalities. It gives higher control to the owner in terms of making decisions. There are also tax benefits as a company doesn't have to pay taxes because all the profits are of a person, so the proprietor has to pay taxes in terms of his personal tax payment.

The sole proprietorship has some disadvantages as well. The sole proprietor is responsible for all the debts and liabilities of the business. He is also responsible for the debts and liabilities that occurred due to the acts of some of his employees. (NY Times, 2007). Moreover, it implies unlimited liability for the person who makes his personal belongings pay for the obligations of the business, which is the biggest disadvantage of sole proprietorship. Also, it is difficult for sole proprietors to take loans from financial institutions as they are reluctant to lend money to sole proprietors (Juliane Russ, n.d.).

Partnership Agreements, Shared Ownership, and Legal Responsibility

A partnership is a legal entity that is formed by the association of two or more persons to act as a co. Owner of a company. The partnership agreement is the foundation of the partnership. It provides the basis for the share of investment, the share of profit, liabilities, dispute resolution, the inclusion of new partners and exit of existing partners and the dissolving of the entire entity.

Like a sole proprietorship, partnerships are easy to start as compared to registered companies that require lesser start-up costs. There are fewer legal formalities, which include gaining a license and registering a business. Another advantage of the partnership over sole proprietorship is access to capital, as the sole proprietor only has his own money as capital. In partnership, partners accumulate their money to form capital for the business. Each partner can get a loan from the bank in his personal capacity, extending capital to the company. The other advantage of the partnership is that partners can personally retain profit, just like a sole proprietorship. The preference for partnership over sole proprietorship is that persons can also pool their personal knowledge and skills for the growth of the business, so the weakness of one partner can be overcome through the strength of another partner. It also helps in effective decision making and growth of the business. It also has a tax advantage, just like a sole proprietorship, as the company is not taxed, and the partners are taxed on the basis of their personal income.

All the partners are liable for all the liabilities of the company just like the sole proprietorship. If a company runs through a critical situation their personal belongings can also be used to pay the debts. So the liability is unlimited to their personal assets as well. Another disadvantage of the partnership over sole proprietorship is disagreement or difference of opinions between the partners which may affect the smooth running of the business or can even cause dissolution of the partnership. If one partner signs a contract all the partners become obligated to it. Moreover, the unequal contribution of skills, efforts and resources may tend to increase disputes. The partner can not transfer an interest in the business without the consent of other partners.

Continuity, Exit, and the Institutional Weaknesses of Partnerships

Another disadvantage of the partnership over registered companies is the problems in continuity of partnership in case of the exit or death of a partner. However, this can be managed by entering adequate clauses in the partnership agreement (Rowena Martinez, 2016).

Companies that are registered with the SEC after submitting specific documents are categorized as registered companies. There are two types of registered companies.

1. Limited liability companies
2. Business Corporation.

Limited Liability Company is also known as Private Ltd. Company. It has characteristics of both corporation and sole proprietorship/partnership.

Registered Companies and the Protection of Limited Liability

The main advantage is its limited liability as the only company is responsible for debts and obligations, and the personal assets of a shareholder are not liable to pay, unlike sole proprietorship and partnership. Another advantage is that the amount of money invested does not entitle a person to be the owner of that much share of a company, as ownership is decided through an agreement. It has the same benefits of taxation if it is elected to pay as a sole proprietorship and partnership. Taxes are passed to the persons. It has no limitation on the number of members. A **limited company** can contain as many members as possible. Another advantage is that not only an individual can be a member of a limited company, but a sole proprietorship or partnership company can also be its member, making fundraising easy for the limited company. Another important advantage from the perspective of the growth of a company is that management can be hired by the members as compared to the sole proprietorship and partnership in which the owner is solely responsible for the decision-making.

Limited companies require more setup formalities as compared to sole proprietorship and partnership. Registration fees are higher for limited liability companies as compared to sole proprietorships and partnerships. Even some states charge annual renewal fees. Financial institutions and medical companies cannot be a limited liability company (Rowena Martinez, 2016).

Public limited companies are the companies that issue shares which help in the raising of capital. The most important advantage is that the company can raise as much capital as possible through floating shares, which we cannot do in sole proprietorship or partnership. By spreading the shares company also spared its ownership among a larger number of people, thus minimizing the risk of loss among them. It makes it easy for the public limited company to obtain funds from financial institutions by maintaining them in stock exchange listing, thus increasing creditworthiness. Because of this, the corporation will have more chances of growth as compared to the other two forms of business. Shares can be easily transferred to the public limited company. It is also easy for the founders to exit the business because of the easy transfer of shares and reputations maintained by the company, which helps owners get an appropriate bidding rate.

More rules and regulations have to be complied with. More formalities evolved in the formation and greater cost of formation. There is no privacy in public limited companies as they have to make more details available to the company. Their accounts are scrutinized by the analysts. Also, the company

can be vulnerable if the majority of the shareholders decide to bid (Johnathan Korchak, 2016). So these different kinds of companies have different advantages and disadvantages. The person who wants to start a business should take a closer look at these to decide which type of company to open.

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