



1

Warm-up Activity

In this module, we will turn our attention to finding a legal structure.

Have you ever thought about what legal structure might suit your business?

What advantages and disadvantages are there in the legal structure you chose?

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2

Vocabulary

Here is the vocabulary for this module.

c corporation

cooperative

corporation

dividend

general partnership

incorporated

legal structure

liability

limited liability

limited liability company

nonprofit corporation

partnership

partnership agreement

shareholders/stockholders

share of stock

sole proprietorship

subchapter s corporation

unlimited liability

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3

Key Learning Objectives

Now we will learn the different types of legal structures. Our objectives are:

- Identify legal structures
- Compare and contrast different types of legal structures



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4

Liability

A **legal structure** is a type structure for a business model. When choosing a legal structure, you must take liability into account.

Liability is how obligated the owner is to use their own personal assets to settle business debts.

- **Unlimited liability** - means the business owner can be legally forced to use personal assets for their business debts.
- **Limited liability** - means the business owner cannot be forced to use personal assets for their business debts.

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5

Sole Proprietorships

In a **sole proprietorship** the business has one owner that has unlimited liability but also gets to collect all the profit from their business.

To set up a sole proprietorship you need a business license that states the official name of the business and a taxpayer identification number, or an employer identification number (EIN).



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6

Partnership

In a **partnership** two or more people manage a business together

To set up a partnership, the partners need to write up a **partnership agreement**



In a **general partnership** all partners have unlimited liability


Limited partners have financial stake in the business, but do not govern any of its day-to-day business

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7

Partnership

In a **partnership** two or more people manage a business together and share in all of its liabilities and profits.



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8

Corporations

A **corporation** is seen as an entity separate from its owners


One **share of stock** is one unit of ownership in a corporation

Most corporations are **C corporations**

Owners of a corporation are called its **shareholders** or **stockholders**

Each stockholder gets a share in the profits of the corporation known as a **dividend**

Incorporated within state law



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9

Subchapter S Corporations



- A **subchapter S corporation** is different from a C corporation in the way they are taxed
- There's just one level of federal tax to pay
- S Corporations who don't have inventory can use the cash method of accounting

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10

Limited Liability Company (LLC)



A **limited liability company (LLC)** has the liability benefits of a corporation and the tax benefits of a sole proprietorship or partnership.

If you decide on an LLC structure, be sure to use the services of an experienced accountant who is familiar with the various rules and regulations of LLCs.

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11

Nonprofit Corporation

A **nonprofit corporation** does not give its shareholders profit and instead is there simply for the good of its community, using its profits only to expand and improve their work.




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12

Cooperative



A **cooperative** is made simply for the benefit of its members (this includes consumers and employees).

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13

Compare and Contrast Legal Structures

	LEGAL LIABILITY	NUMBER OF OWNERS/ SHAREHOLDERS	TAX IMPLICATIONS	COST	FUNDING	FUTURE NEEDS
1 Sole Proprietorship	Owner	1	Personal	Least expensive	Hard	Dissolves at death
2 General Partnership	Partners	Many	Business	More expensive	Use partners for this	May dissolve when a partner leaves
3 Limited Partnership	Partners	Two Types	Business	More expensive	Use partners for this	May dissolve when a partner leaves
4 Corporation	Business	Many	Business and Personal	Even more expensive	Sell stock for funds	May pass ownership
5 S Corporation	Business	Up to 75	Personal	Even more expensive	Sell stock for funds	Requires additional management of shareholders
6 Limited Liability Company	Business	Many	Personal	Most expensive	Hard	Dissolves when a partner leaves

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14


Choosing Your Best Structure

Important questions to ask yourself in deciding which structure to use are:


Is it possible for me to start this business alone?

Am I willing to risk my personal assets?

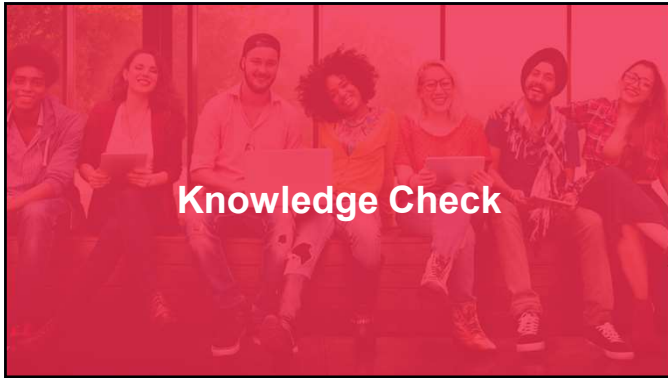
Do I want to share responsibility as well as profits?



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15



16

Multiple Response Question

Which of the following describe a general partnership?

- ☐ All partners have unlimited liability
- ☐ One or more partners have limited liability
- ☐ Partners share in the profits
- ☐ Partners share in the liabilities
- ☐ One or more partners have no say in the management of the business
- ☐ Partners create a partnership agreement
- ☐ More promising to investors than a sole proprietorship

17

Multiple Choice Question

True or False? Corporations are separate entities from their owners.

- ☐ True
- ☐ False

18



Match the term with the correct definition:

A business made simply for the benefit of its members

Does not give its shareholders profit and instead is there simply for the good of its community; uses its profits only to expand and improve their work; they do not sell shares and their owners have limited liability

Has the liability benefits of a corporation and the tax benefits of a sole proprietorship or partnership; its owner(s) are called members and there may be one or more members for a limited liability company

Gives more benefits to the owners but is more complex and expensive to set up and keep going than a subchapter C corporation; are taxed differently than a subchapter C corporation

Terms:

Cooperative

Limited liability company

Nonprofit corporation

Subchapter S corporation

19

Multiple Response Question



Which of the following describe a sole proprietorship?

- ☐ Only one owner
- ☐ Desirable to investors
- ☐ Unlimited liability for owner(s)
- ☐ Business and owner(s) are legally one in the same
- ☐ Most expensive legal structure
- ☐ Owner(s) in complete control of the business
- ☐ Never requires an EIN

20

Multiple Choice Question



True or False? When you become a shareholder or stockholder you own part of the business you bought shares of stock in.

- ☐ True
- ☐ False

21

Independent Practice

Answer the important questions listed at the end of this module:

Is it possible for me to start this business alone?

Am I willing to risk my personal assets?

Do I want to share responsibility as well as profits?

Write a short paragraph on which legal structure you think will work best for your business and why.

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22

Reflection

Think back to your answers on the warm-up activity. After answering the questions on the previous slide decide which legal structure would be best for you and your business. Did your answer change from the beginning? Do you feel you have a better understanding of business structures?

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23

Compare and Contrast

Take a moment to reflect on your learning and comparing and contrasting your answers.

What we learned about:

C corporation
Dividend
Legal structure
Limited liability company
Partnership agreement
Sole proprietorship

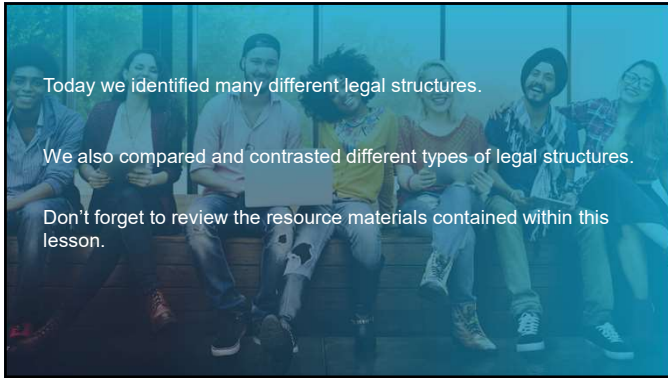
Cooperative
General partnership
Liability
Nonprofit corporation
Shareholders/Stockholders
Subchapter S corporation

Corporation
Incorporated
Limited liability
Partnership
Share of stock
Unlimited liability

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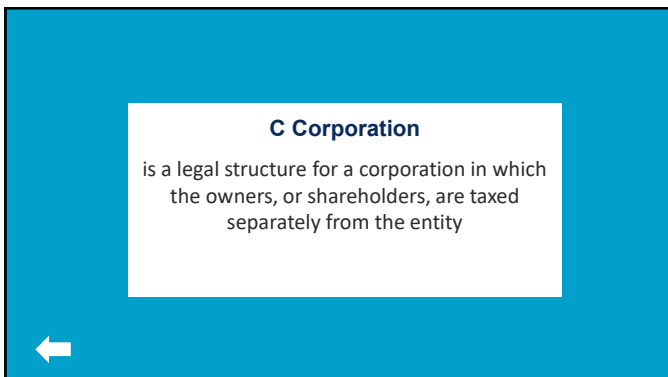
24



25



26



27

Cooperative

a business made simply for the benefit of its members



28

Corporation

an entity separate from its owners in the eyes of the government; its owners have limited liability



29

Dividend

a partial distribution of the profits issued by corporations linked to share or stockholder ownership



30

General partnership

all partners have unlimited liability



31

Incorporated

corporations that have set up within
state law



32

Legal Structure

a type of structure for a business model



33

Liability

how obligated the owner is to use their own personal assets to settle business debts



34

Limited Liability

when the business owner cannot be legally forced to use personal assets for their business debts, except under special circumstances



35

Limited Liability Company

has the liability benefits of a corporation and the tax benefits of a sole proprietorship or partnership; its owner(s) are called members and there may be one or more members for a limited liability company



36

Nonprofit Corporation

does not give its shareholders profit and instead is there simply for the good of its community; uses its profits only to expand and improve their work; they do not sell shares and their owners have limited liability



37

Partnership

when two or more people manage a business together and share in all of its liabilities and profits



38

Partnership Agreement

a legal document that defines each partner's responsibilities and liabilities and details what will happen if one of them decides to leave the partnership



39

Shareholders/Stockholders

part owners of a corporation through
buying stock



40

Share of Stock

one unit of ownership in a corporation



41

Sole Proprietorship

a business that has one owner that has
unlimited liability but also gets to collect all
the profit from their business



42

Subchapter S Corporation

gives more benefits to the owners but is more complex and expensive to set up and keep going than a subchapter C corporation; are taxed differently than a subchapter C corporation, can only have 100 or less shareholders and everyone must elect to be an S corp



43

Unlimited Liability

when the business owner can be legally forced to use personal assets for their business debts



44
