RUAHA CATHOLIC UNIVERSITY
(RUCU)

FACULTY OF INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

DEPARTMENT OF BUSINESS AND MANAGEMENT.

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QUESTION.

Group 1 – business management

1. What are the advantages and disadvantages of each of the three main forms of business (i.e. sole proprietorships, partnerships and corporation)?
2. Corporations are said to be suffering from double taxation. What does this statement mean?
3. How do general partners differ from limited partners?
4. discuss the potential components of a partnership agreement
5. mention any three open corporations operating in Tanzania

BUSINESS

Is an economic activity that involves the exchange purchase sale or production of goods and services with a motive to earn profits and satisfy the need of costumers.

BUSINESS MANAGEMENT

Business management refers to the coordination and administration of business activities, tasks, and resources to achieve a set objective. This often involves supervision and training of staff, overseeing core operations, and designing company infrastructure to optimize for the future.

There are three main forms of business according to ownership

i. Sole Proprietorship
ii. Partnership
iii. Corporation

I. SOLE PROPRIETORSHIP

Sole proprietorship is the simple form of business that owned and operated by one person. The sole proprietor has full and complete authority to manage and control the business. There are no partners or shareholders to consult before making decisions. This forms of organization gives the proprietor maximum freedom to run the business and respond quickly to day-to-day business needs. In a sole proprietorship, you're the sole owner of the business. This type of business is straight-forward and easy to launch and there may be fewer administrative requirements compared to a partnership or corporation. Example of such business are freelance writer and graphic designer**.**

ADVANTAGE OF SOLE PROPRIETORSHIP

i. **Sole proprietorships are easy to establish.** Sole proprietorships are inexpensive and easy to form. As long as you're the owner and in charge of operations, there's no need to formally register your business or notify federal or state offices. The only fees involved are those needed to register your business name, and to attain the appropriate licenses and permits.

The necessary licenses will vary according to your industry and operations, with certain licenses required to handle food and alcohol, operate a storefront and put up a sign, or run a business from your home. Other than these requirements, starting a sole proprietorship happens inadvertently when you're working as a contractor or freelancer and trading under your personal name.

ii. **You're the only decisions maker** – A sole proprietor has complete responsibility in terms of making business decisions. It results in faster decision-making for the business as there is no need to consult multiple parties for every minor issue.

iii. **Confidentiality** – A sole proprietor can keep all business-related information to themselves as the business's only decision-maker. The law does not bind them to make the accounts of a sole proprietorship public.

iv. **There is no profit-sharing** – A sole proprietor has complete ownership of profits arising from business operations. They are not obligated to share profits with anyone else.

v. **Fulfilment** – Since a sole proprietor is responsible for both risks and rewards of their business, even a minor success can give a greater feeling of pride and satisfaction than other business forms.

DISADVANTAGES OF SOLE PROPRIETORSHIP

i. **Difficult to raise money**. It is challenging to raise vast amounts of capital in a sole proprietorship compared to a partnership or company. This form of business runs mainly on personal savings and borrowings made by its owner. Lack of adequate finances can become an obstacle in growing the business.

ii. **Dependence on owner.** The owner and their business are a singular entity in a sole proprietorship. While this has several advantages, the continuity of this form of business depends solely on the owner's well-being. In case of death, insolvency, imprisonment, etc., it can shut down if there is no successor or heir to continue the business.

iii. **Unlimited Liability.** If the proprietor cannot pay debts arising out of business from its assets, his/her personal property is also at stake. This results in sole traders taking zero or very minimal risks to ensure the survival of the business.

iv. **Difficult to manage business operation**. The proprietor has to perform most or all the activities related to the business like purchase, client relationships, sales, marketing, accounting, etc. They may employ others to help in business operations, but limited finances may prevent the owner from getting full-time staff and give them attractive remuneration. As such, the proprietor may have to carry out all activities without much assistance from others.

II. PARTNERSHIP

Partnership a legal form of business operation between two or more individuals who share management and profits. Example of partnership business are Microsoft runed by bill gates and Paul Allen

ADVANTAGES OF A BUSINESS PARTNERSHIP

i. **Less formal with fewer legal obligations.** One of the main advantages of a partnership business is the lack of formality compared with managing a limited company.
The accounting process is generally simpler for partnerships than for limited companies. The partnership business does not need to complete a Corporation Tax Return, but you'll still need to keep records of income and expenses. A partnership tax return must be submitted to HMRC and each partner will need to file their own self-assessment tax return including details of their profits from the partnership (as well as any other income). Unlike a limited company, you don't need to complete a confirmation statement and the plethora of other possible Companies House forms that a limited company may need to submit will never be required for the partnership.

ii. **Easy to get started.** The partners can agree to create the partnership verbally or in writing. There's no need to register with Companies House and registering the business partnership for taxation with HMRC is quite simple. The partners will also individually need to register for self-assessment, which they can do online.
Although it will take longer and incur additional cost, it's usually sensible to put in place a partnership agreement. This documents how the partnership will work, the rights and responsibilities of partners and what would happen in various possible situations, including if the partners fundamentally disagree or someone wants to leave.

iii. **Sharing the burden.** Compared to operating on your own as a sole trader, by working in a business partnership you can benefit from companionship and mutual support. Starting and managing a business alone can feel stressful and daunting, particularly if you've not done it before. In a partnership, you're in it together.

iv. **Sharing of knowledge, skills and experience.** Each partner will bring their own knowledge, skills, experience and contacts to the business, potentially giving it a better chance of success than any of the partners trading individually.
Partners can share out tasks, with each specializing in areas they're best at and enjoy most. So if one partner has a financial background, they could focus on maintaining the company books, while another may have previously worked extensively in sales and therefore take ownership of that side of the business. As a sole trader, by contrast, you'd have to do all of this yourself (or manage someone you employ to do some of it).

v. **Better decision-making.** Compared with operating on your own, in a partnership the business benefits from the unique perspective brought by each partner. In business, very often two heads really are better than one, with the combined conclusion of debating a situation far better than what each partner could have achieved individually.

vi. **Privacy.** Compared to a limited company, the affairs of a partnership business can be kept confidential by the partners. By contrast, in a limited company certain documents are available for public inspection at Companies House and a
company's shareholders can choose to inspect various registers and other documents the company is required to keep.

vii. **Ownership and control are combined.** In a limited company, ownership and day to day management of the business is split between shareholders and directors (although they're often the same people). That can mean that directors are constrained by shareholder preferences in pursuing what they see as the best interests of the business.
By contrast, in a business partnership, the partners both own and control the business. As long as the partners can agree how to operate and drive forward the partnership, they're free to pursue that without interference from any shareholders. This can make a partnership business potentially more flexible than a limited company, with the ability to adapt more quickly to changing circumstances.

viii. **More partners, more capital.** The more partners there are, the more money there may be available from their combined resources to invest into the business, which can help to fuel growth. Together, their borrowing capacity is also likely to be greater.
By contrast, it's usually possible to admit a new partner into a general partnership. Good staff may be attracted to the business with the incentive that they could become a partner, either when they join or at some point in the future.

DISADVANTAGES OF A BUSINESS PARTNERSHIP

i. **Perceived lack of prestige.** Like a sole trader, the partnership business model often appears to lack the sense of prestige more associated with a limited company. Especially given their lack of independent existence aside from the partners themselves, partnerships can appear to be .temporary enterprises, although many partnerships are in fact very long-lasting.
This appearance of impermanence, and the fact that the partnership's financials cannot be independently checked at Companies House, can appear to present more risk. Because of this, some clients (more so in certain industries) will prefer to deal with a limited company and even refuse to transact with a partnership business.

ii. **Limited access to capital.** While a combination of partners is likely to be able to contribute more capital than a sole trader, a partnership will often still find it more difficult to raise money than a limited company.

Banks may prefer the greater accounting transparency, separate legal personality and sense of permanence that a limited company provides. To the extent that a partnership business is seen as higher risk, a bank will either be unwilling to lend or will only do so on less generous terms. Several other forms of long-term finance are not available to partnerships. Most importantly, they cannot issue shares or other securities in exchange for investment in the way a limited company can.

iii. **Potential for differences and conflict.** By going into business as a general partnership rather than a sole trader, you lose your autonomy. You probably won't always get your own way, and each partner will need to demonstrate flexibility and the ability to compromise.

iv. **Difficult in decision making.** Compared to running a business as a sole trader, decision-making can be slower as you'll need to consult and discuss matters with your partners. Where you disagree, time will be spent negotiating to build agreement or consensus. Sometimes this might mean opportunities are missed. More often, it will frustrate a partner who has been used to making all the decisions for their business.

v. **Profits must be shared.** At a basic level, while a sole trader retains all the profits of their business, those of a partnership are shared amongst the partners. By default, under the Partnerships Act 1890, profits are shared equally, although that position can be amended by a partnership agreement. Sharing profits equitably can raise difficult questions. How do you value different partners' respective skills? What happens when one partner is seen to be putting in less time and effort into the partnership, but still taking their share of the profits? It's easy for resentment to occur if there doesn't appear to be a fair balance between effort and reward.

vi. **Personally demanding.** Although there's at least one other person to share the worry and workload with, in a partnership business the partners still essentially are the business. It can absorb a lot of time and energy and disrupt your work/life balance, particularly where you end up covering for other partners who don't have such a strong work ethic. By contrast, in a limited company it's easier for the owners of the business – its shareholders – to appoint directors to manage the business, at least on a day to day basis.

vii. **Limits on business development.** Several of the other disadvantages we've looked at combine to restrain the growth of most partnerships. That won't worry a lot of businesses with modest expansion expectations. But for any business looking to achieve massive growth, a combination of unlimited liability, lack of funding opportunities and a lack of commercial status in the eyes of the world is hardly the perfect recipe for success.

III. CORPORATION

A corporation is a legal entity created by individuals, stockholders, or shareholders, with the purpose of operating for profit.

ADVANTAGES OF FORMING A CORPORATION

i. **Personal liability protection.** A corporation provides more personal asset liability protection to its owners than any other entity type. For example, if a corporation is sued, the shareholders are not personally responsible for corporate debts or legal obligations – even if the corporation doesn't have enough money in assets for repayment. Personal liability protection is one of the main reasons businesses choose to incorporate.

ii. **Business security and perpetuity.** Corporation ownership is based on percentage of stock ownership, which offers much more flexibility than other entity types in terms of transferring ownership and perpetuating the business for the long term. Although specific details regarding transfer of ownership depend on the governing agreement in the bylaws and articles of incorporation, ownership of this entity type is often easy to buy and sell. For example, if an owner wants to leave a company, they can simply sell off their stocks. Similarly, if an owner dies, their ownership stocks can easily transfer to someone else.

iii. **Access to capital.** Since most corporations sell ownership through publicly traded stock, they can easily raise funds by selling stock. This access to funding is a luxury that other entity types don't have. It is great not only for growing a business, but also for saving a corporation from going bankrupt in times of need.

iv. **Tax benefits.** Although some corporations (C corporations) are subject to double taxation, other corporation structures (S corporations) have tax benefits, depending on how their income is distributed. For example, S corporations have the luxury of splitting their income between the business and shareholders, allowing it to be taxed at different rates. Any income designated as owner salary will be subject to self-employment tax, whereas the remainder of the business dividends will be taxed at its own level (no self-employment tax)

DISADVANTAGES OF FORMING A CORPORATION

i. **Lengthy application process.** Filing your articles of incorporation with your secretary of state can be quick, but the overall process of incorporating is often a long one. You will likely have to go through extensive paperwork to properly determine and document the details of the organization and its ownership. For example, Sweeney said you need to draft and maintain corporate bylaws, appoint a board of directors, create a shareholders ownership change agreement, issue stock certificates, and take minutes during meetings.

ii. **Rigid formalities, protocols and structure.** Alongside the lengthy application process is the amount of time and energy necessary to properly maintain a corporation and adhere to legal requirements. You have to follow many formalities and heavy regulations to maintain your corporation status. For example, you need to follow your bylaws, maintain a board of directors, hold annual meetings, keep board minutes and create annual reports. There are also restrictions on certain corporation types (for example, S-corps can only have up to 100 shareholders, who must all be U.S. citizens).

iii. **Encounter Double taxation.** Most corporations (like C-corps) face double taxation, which means that the business income is taxed at the entity level as well as the shareholder level (based on their percentage of profits earned). The only way around this is to operate as an S corporation. S-corps eliminate this problem by only taxing each shareholder on their individual income, not at the entity level. However, the IRS has been known to pay closer attention to S-corps and even tax them as C-corps if their records fail to meet the legal requirements.

iv. **It is expensive.** Corporations are expensive to form and operate. It might be easy for established corporations to raise capital by selling shares, but forming and maintaining a corporation can be costly. You will likely need a lot of startup capital to get a corporation running, in addition to paying the filing charges, ongoing fees and larger taxes. When weighing the pros and cons to determine whether a corporation is the right legal structure for your business, consult an attorney and an accountant who are well versed in the implications of creating a corporation.

DOUBLE TAXATION

Double taxation is a tax principle referring to income taxes paid twice on the same source of income. It can occur when income is taxed at both the corporate level and personal level. Double taxation also occurs in international trade or investment when the same income is taxed in two different countries.

For corporations, the company is taxed as a business entity and each shareholder's personal income is also taxed. Double taxation comes into play because corporations are considered separate legal entities from their shareholders. Corporations pay taxes on their annual earnings. When a corporation pays out dividends to shareholders, the dividends also have tax liabilities. Shareholders who receive any dividends must pay taxes on them. Hence, double taxation.

DIFFERENCES BETWEEN GENERAL PARTNER AND LIMITED PARTNER

General partner is a part owner of a partnership business and involved with its operations and shares in its profit

Limited partners is a person who contributes capital to a business but is not active in managing it; his/her liability is limited to the amount he or she has invested.

Differences between general partners and limited partners

Basis of comparison	Limited partner	General partner
liability	Limited partners liable to the extent of the investment made they have made unless stated in the agreement.	General partners have unlimited liabilities and their assets can also be used to pay off the debts in case of insolvency.
ownership	The Ownership is predefined in the partnership agreement.	The Ownership of general partners is equal unless stated otherwise in the agreement.
control	The limited partner has minimal power as compared to general partners.	The general partner has control over the business operation and management.
Profit/loss	Profit and loss shared as per the investment made by the partner Or as per the condition Mentioned in the legal agreement.	General partners share the profit or losses equally unless Stated otherwise in the agreement.
structure	The structure is more complex	The structure is simple.
documentation	Additional paperwork requires in the limited partnership.	Less Paperwork required in this type of entity.
participation	Less participation required in daily business operations in the limited partnership.	General partners have major participation in business operations and management activities.

PARTNERSHIP AGREEMENTS

i. **Partnership agreement** is a legal contract between two or more business partners that outline their rights responsibilities, profit and loss distribution.

ii. **Your Partnership's Name**. At the start of your contract, you need to state your business name, its purpose, and the names of your partners. This ensures that each party will be held accountable for the terms and provisions of the contract.

iii. **Allocations – profits and losses**. It's crucial for your contract to state how the profits and losses of the business will be allocated to each partner. This can include how much each will be paid or how losses will be distributed based on the investment.

iv. **Ownership**. All business partnership contracts should include an outline of how the ownership of the company is divided. It should also include different scenarios that would influence the division of ownership. For example, how will ownership be divided if a partner wants out or if the company needs to be sold?

v. **Authority.** If you want to avoid stepping on each other's toes, you should set up a decision-making structure in your contract. Ideally, each partner should be able to make decisions based on how much they invested in the company. Setting a foundation for authority before decisions need to be made can prevent future arguments.

vi. **Contribution** In case of later disagreement, you want to ensure that each partner's financial contribution is written into your contract. This is because you may not remember the amount each member invested upon start-up, which could pose an issue when dividing out labor, profits, and losses.

vii. **Workload**. Division of work between partners is one of the most common causes for disagreements in joint business ventures. Therefore, it's critical to get this sorted out before you start your company operations. Your agreement should clearly state what each partner will do and whose responsible for what business decisions.

viii. **Compensation**. The primary goal of any business is to make a profit, but how will these profits be paid out to each partner? And where do you draw the line between income and profits? These are important things to consider in your agreement. That way, you can ensure that each individual is fairly compensated for their efforts.

ix. **Dispute Resolution**. Many partners prefer not to think about disputes until they become an issue. However, this can lead to significant problems, including litigation and even business failure. One of the easiest ways to resolve disputes is by turning them over to a predetermined mediator. Another method is to use your business advisory board to give you the best advice on what to do in the situation. Whatever you choose, it's crucial to ensure it's written into your contract.

x. **Death**. Making arrangements in case of a partner's death ahead of time may be the difference in your business continuing or collapsing. This means that your contract should include a buyout agreement that specifies what happens in terms of business owners if a partner cannot continue running the company.

xi. **New Partners**. New partners can arise due to a variety of circumstances, including the death of a partner, someone dropping out of the partnership, or you finding someone interested in investing in your company. This is why you should state what you will do if new partners join the business in your agreement.4

OPEN CORPORATION

Open Corporation is a corporation whose stock can be purchased by anyone who can afford the price.

Examples open corporation

i. Tanzania breweries
ii. Nation micro-finance bank NMB
iii. Tanzania cigarate company TCC

REFERENCE