**Chapter 4 Outline**

The Sole Proprietorship

Business owned by one person

Advantages of the Sole Proprietorship

Easy to form

“You’re the boss”

Free to run the business her own way

Potential profits

Keeps profits to self

Disadvantages of Sole Proprietorship

Success or failure falls on one person: the sole proprietor

Unlimited liability

No limit to how much one can lose

Limited capital

Capital depends on one’s savings / ability to borrow

Limited life

If proprietor goes out of business/seriously injured/dies, bus. Ends

The Partnership

Business organization owned by two or more persons known as “partners”

Advantages of the Partnership

Additional capital

Available money for the company increases

“Two Heads are Better than One”

Partners share problems, responsibilities, more free time

Easy to organize

Disadvantages of the Partnership

Limited life

When a partner dies/resigns, a new partnership is needed

Partners may disagree

Disagreement = business suffers/failure

Difficult to sell

Difficult to find replacement partner

Limited capital

Unlimited liability

Each partner responsible for debts of business

The Corporation

What is a Corporation

Business organization licensed to operate by a state/federal gov’t

Corporation’s license = charter

Gives firm right to do business and to issue shares of stock

Shareholders

People who own shares/stocks in a corporation

Often described as “artificial persons”

Can enter contracts, sue/be sued, pay taxes, etc.

Advantages of the Corporation

Limited liability

Shareholders cannot be held liable for corp. debts

Most important advantage of corps.

Unlimited life

Corporations are able to borrow money for long periods of time

Disadvantages of the Corporation

Difficult and expense of organizing

Very complex process

Usually requires serves of a lawyer and accountant

Services can add thousands of dollars to cost of running business

Double taxation

Reason people invest = dividends – profits distributed to shrhldrs

Dividends subject to personal income taxes

Corporate profits subject to corporate income taxes

S, the Corporation for Small Businesses