



Organizational Structure

Structure Breakdown

Sole Proprietorship

A sole proprietorship is the default organizational structure of a business which isn't specifically setup as an alternative business model. Anyone operating on their own and doing business without setting up another type of structure is technically operating as a sole proprietorship. This ease, or lack, of setup is the only key benefit of a sole proprietorship versus any other type of organizational structure. Sole proprietorship is nearly never the correct option when starting a business.

The owner of a sole proprietorship is fully responsible for all the legal and financial troubles of the business. They must declare profits and losses on their personal taxes under self-employment income. If the business comes under fire for any crime, debt, or legal trouble the owner is solely responsible for everything, with nothing protecting them or their assets from forfeiture. If the business wants to operate under a name different than the owner's name, it will need to file for a DBA (doing-business-as) for the new name.

Partnership

Like a sole proprietorship, a partnership is the default organizational structure for any business which has more than one owner and doesn't specifically setup as an alternative business model. The only two benefits of forming a partnership business versus a more structured business model are that the setup is nonexistent, and that the legal and monetary liability is shared equally among the partners.

The owners of a partnership are fully responsible for all the legal and financial troubles of the business and must declare their percentage of the business's profits and losses on their personal taxes as self-employment income. Generally, unless otherwise drafted, each partner in a partnership shares an equal ownership of and responsibility for the company. Each partner is also ultimately liable for debts the company accrues and they have no protections from collections on the company's debts. Like a sole proprietorship, if a partnership wants of operate under a different name, they will need to file a DBA (doing-business-as) for the name they want to operate under.

Limited Liability Company (LLC)

A limited liability company, more frequently referred to as an LLC, is a business structure that is simple to setup and affords the owners certain protections and benefits above those of a sole proprietorship or partnership. LLCs can be formed by any number of members/owners, each of which is protected from liability in the company's operation. Unlike a sole proprietorship or partnership an LLC is a distinct legal entity from its owners, meaning that it has a unique name and tax identifier, and files taxes separately from its owners. LLCs are also able to open business bank accounts and loans otherwise inaccessible to sole proprietorships.

The few downsides of a limited liability company come from the additional bookkeeping and paperwork required when compared to a sole proprietorship or partnership. LLCs need to keep their money and records separate from those of their owners in order to properly file taxes and maintain liability protections. The cost of starting an LLC varies by state, and the requirements for and protections afforded to an LLC can also vary by state. Additionally, certain types of professional businesses cannot operate as an LLC depending on the state in which they register and will have to form another type of organization.

Limited Liability Partnership (LLP)

A limited liability partnership, more frequently referred to as an LLP, is a very similar business structure to an LLC. LLPs afford liability protections to the members of the partnership just like an LLC does, but has certain structural requirements that set it apart. An LLP must have a partner which acts as a manager and that is liable for what the partnership does. The managing partner's liability shields the other silent partners and investors from liability in the business. The primary reason a business might select to operate as an LLP versus an LLC is that certain categories of businesses can't operate as LLCs in some states, such as banks and insurance companies.

C-Corporation

A C-corporation is a distinct legal business entity that is created through filing articles of incorporation in the state where the company will conduct its business. C-corporations are the most 'business-like' organizational structure and is the standard for large, well-known companies. The ownership of a C-corporation is divided among an unlimited number of shareholders, with management responsibilities handled by an elected board of directors and corporate officers.

The primary upside of a C-corporation is that as the size of the business scales the complexity of the organization structure remains mostly the same. Where business types like partnerships, LLCs, and LLPs can function with a flexible number of owners the management involved would quickly spiral out of control

versus a C-corporation. C-corporations can have any number of owners/shareholders and can sell stocks to expand that shareholder base, something difficult if not impossible to do with other structures. Along with this benefit comes the drawback of potential double taxation. While C-corporations pay taxes on the profits that they bring in, shareholders also have to pay taxes on income drawn from dividends on shares in the company.

S-Corporation

An S-corporation is a type of C-corporation that satisfies certain IRS requirements and can opt for an alternative tax system for the company. Like a C-corporation, an S-corporation is founded by filing articles of incorporation, electing a board of directors, and establishing corporate officers.

Where an S-corporation begins to differ is in the limitations put upon it. S-corporations can have a maximum of 100 shareholders, which means that this organizational structure is not suitable for public trading. Additionally, the shareholders of an S-corporation must all be US citizens, ruling out this structure for international businesses. In exchange for these limitations, an S-corporation can take advantage of an alternative tax system. Corporate-level profits of S-corporations are not taxed, instead the profits and losses of an S-corporation are passed through to each shareholder, allowing the shareholders to file income taxes based on their individual ownership and financial situation. This alternative system can lead to overall lower taxation on the profits that an S-corporation makes.

Sad Pumpkin Games

The obvious answer for Sad Pumpkin Games is to form a limited liability company (LLC). The incredibly small size of the company and the flexibility afforded by an LLC are a perfect match. As the company would have a small, fixed number of owners the limitation of an LLC in its ability to add new members to the organization easily would not become a problem. The low price of establishing an LLC, the liability protections afforded by it, and the simple taxation system make an LLC the clear choice.

In Washington state, where Sad Pumpkin Games would be established, the requirements to start a limited liability company are very straightforward. Like in most states, a prospective WA LLC needs to have a distinct name from other operating businesses. In addition, prospective LLC names cannot contain certain words and phrases that might confuse customers into believing the business is associated with the state or federal government or into believing the nature of the company's business is different than it is.

After determining a name, a WA LLC filer will need to establish a named registered agent. The registered agent is the individual responsible for receiving and handling official documents, such as legal documents and tax forms. For Sad Pumpkin Games, I would be the registered agent, but there are also paid services offered for external registered agents to handle the documents and ensure the LLC follows all laws and regulations.

Once Sad Pumpkin Games has an official name and agent, there are two forms of paperwork that would need to be created and filed. First, a certificate of formation, which contains the full details of the proposed LLC such as name, address, and registered agent, would need to be filed with the state. In WA the fee for filing this paperwork is approximately \$200 depending on how the form is filed. Additionally, though not required by the state, an operating agreement should be drafted and filed. The operating agreement is a legal document which outlines how the company is to be managed, how members are to be added or removed from the LLC, how profits and losses are going to be allocated, and any other bylaws that the company chooses to be run by.

The final step is for Sad Pumpkin Games to file for a federal employer identification number (EIN). This number acts as the business's social security number for tax filing purposes and is given by the IRS. Sad Pumpkin Games would only be required to file for a new EIN if the LLC would have multiple shareholding members.

References

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