

Forms of business ownership

Without structure, businesses would struggle to reach that well-oiled machine status every company strives to obtain. Choosing a business ownership style, also known as a business structure, is a necessary first step when starting an entrepreneurial journey or when reworking your current business plan.

In business, this structure comes from ownership style. Because no business is exactly the same, there are different types of business ownership, all with different traits that make them suited for some companies and wrong for others.

What are the types of business ownership? Pros and cons

- **Sole proprietorship.**
- **Partnership.**
- **Limited liability Company**
- **Corporation.**
- **Cooperative.**

1. Sole proprietorship

A sole proprietorship occurs when someone does business activities registered under their own name. There is no separate business entity, meaning there is no distinction between the business owner's personal and professional [assets](#) and liabilities.

This form of business is simple, easy to start, and one of the most common types of business ownership for beginners. They are a good option for someone starting a low-risk business as they have no additional taxation! However, because there is no formal separation, the business owner will become personally liable for any obligation the business might have.

Pros

Low start-up capital

Little to no restrictions

No additional business taxes

Cons

All power and decision making in the hands of one person(no diversity)

Hard to raise external funds

Unlimited liability

2. Partnership

Similar to sole proprietorships, a partnership is the simplest type of business ownership when two or more people are involved. There are two kinds: limited partnerships and limited liability partnerships.

Limited liability: a person's liability is limited to a fixed sum, which usually reflects their investment in the business

Unlimited liability: there is no limit to the liability and the owners take full responsibility for the companies' debts

A limited partnership has one partner with unlimited liability while everyone else involved has limited liability. With limited liability, comes limited control. Since being a partner with limited liability is less of a risk, they get less say in decision-making processes.

A limited liability partnership has only one class of owners, meaning there is no partner with the risk, and power, of unlimited liability. A limited liability partnership shares the liability among the owners, protecting them from the mistakes of their partners. Neither of these partnership types pays additional taxes.

pros

Benefits of teamwork and diversity of opinions

Low start-up capital

Greater borrowing capacity

No extra taxes

Cons

Risks of disagreements

Divided profits

Potential unlimited liability

3. Limited liability company

Not to be confused with a limited liability *partnership*, a limited liability *company* (LLC) separates the owner's personal and professional assets. Meaning if your business gets hit with a lawsuit or goes bankrupt, your house, car, and personal piggy bank are safe.

Similar to sole proprietorships and partnerships, LLCs do not pay additional federal income taxes or those associated with being a corporation. However, depending on their location, they might be subject to other state taxes. Also, LLCs fall under the category of self-employment, so those taxes fall on them as well.

An LLC is a good choice for a business owner willing to take a little bit of a bigger risk or one looking to protect their personal assets.

Pros

Owners protected from business liability

Easy to start up

No additional corporate taxes

Cons

Higher start-up costs

Self-employment taxes

Hard to raise outside funding

4. Corporation

A corporation, or just a regular corporation, is its own entity kept separate from its owners. This means they offer the most protection in terms of personal liability.

Corporations have an advantage when it comes to funding: [stock](#). A stock is a partial share in a company, so when people buy stock, they are essentially buying ownership and decision-making responsibilities.

However, starting a corporation costs more than any other business structure. Not only are they legally required to do keep more records and release more reports, but they also pay income tax. In some cases, there is even double taxation - once on profits, and then again on the [dividends](#) distributed to stockholders.

With so many different stakeholders contributing to the same business, corporations become solid. If someone leaves, the business remains relatively unaffected.

A corporation is a good structure for a business owner looking for a little more risk, good funding options, and the prospect of eventually “going public,” which means the company will eventually sell stock to the public.

Pros

Stocks provide solid funding options

Diversity in management, governance and decision making; hence likely to be more stable

Cons

Double taxation: First on profits made and also on dividend pay-outs

5. Cooperative

A cooperative is a private business owned and operated by the same people that use its products and or services. The purpose of a cooperative is to fulfil the needs of the people running it. The profits are distributed among the people working within the cooperative, also known as user-owners.

There is typically an elected board that runs the cooperative, and members can buy shares to be apart of decision-making processes.

Pros

Employees engaged to run it professional and only taxed on their personal income

Cons

Hard to acquire outside funding