



UNIVERSITY OF
FLORIDA

Cooperative Extension Service
Institute of Food and Agricultural Sciences

Fact Sheet HE 7108

Business Organization¹

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One of the most basic decisions concerning the operation of a home business is the type of legal organization it will be. You may choose from a sole proprietorship, partnership, or corporation. Each type has its own advantages and disadvantages.

SOLE PROPRIETORSHIP

The sole proprietorship is the most common form of business ownership in the United States. A sole proprietorship is owned by one individual. This form of business has distinct advantages and disadvantages as compared to other types of businesses.

Advantages

- Simple structure
- Low start up costs
- Greatest freedom from regulation
- Owner in direct control
- Minimal working capital requirements
- Tax advantage to small owner
- All profits to owner

Disadvantages

- Total personal liability
- Risk business termination with death or disability
- Difficult to raise capital
- Profits taxed as personal income
- Personal affairs easily mixed with business

PARTNERSHIP

A partnership is comprised of two or more persons. The partnership can be established in many forms or functions, as determined by the partners. A partnership can be formed on the basis of an oral agreement. It is recommended that partners (with the help of legal counsel) prepare a written document which states what each partner will contribute, areas of authority, and how profits or losses will be shared.

Partnerships can have two types of partners. All partnerships have at least one "general partner" who has authority and responsibility for the day-to-day operation of the business. General partners also have unlimited personal liability (like sole proprietors). Some partnerships also have limited partners. Limited partners are investors who do not share responsibility or

1. This document is Fact Sheet HE 7108, a series of the Home Economics Department, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida. Publication date: November 1991.
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authority for managing the business. They are liable only for the amount of their investment. For example, if you are a limited partner in your business and have invested \$500, your liability is limited to that amount.

Advantages

- Simple Organization
- Ease of formation
- Low start up costs
- Shared financial resources
- Shared personal resources
- Broader management resources
- Limited outside regulations

Disadvantages

- Unlimited liability
- Limited life of business
- Divided authority
- Difficult to raise additional capital
- Hard to find suitable partners or to get rid of a bad partner
- Cost of organization
- Sharing of profits

CORPORATION

Corporations are a form of business which is owned by people who are called “stockholders.” Corporations must obtain a charter from one of the states. When a business becomes incorporated, the business becomes, in a legal sense, a “person” which can buy property, enter into contracts, sue or be sued, and conduct day-to-day business. If you plan to incorporate your business, you should retain a lawyer for advice and to prepare the necessary documents.

Advantages

- Limited personal liability
- Specialized management
- Shared personal resources
- Ownership is transferable
- Change in ownership need not affect management
- Legal entity
- Possible tax advantages
- Easier to raise capital

Disadvantages

- More complicated management
- Most expensive form to organize
- More complicated management
- Charter restrictions
- Extensive record keeping necessary
- Possible double taxation
- More government control

REGISTRATION OF YOUR BUSINESS

The legal requirements are minimal for a sole proprietorship. As of January, 1, 1991, you must register your business with the Division of Corporations, Florida Department of State, if you plan to use a fictitious name for your business. Fictitious name registration is required if you use any name other than your legal personal name (first, middle initial, and last name), or registered corporate name, trademark or service mark. For example, a business named *Carol's Custom Draperies* or *Ted's Travel Services* must be registered.

To register a fictitious name, you must advertise your intention to register the name once in a newspaper in the county where your business is located. Then fill

out the registration form and pay the filing fee. The forms for registering a fictitious name can be obtained from the Florida Department of State, Division of Corporations, P. O. Box 1300, Tallahassee, FL 32302-1300 (904-487-6058) or from the Clerk of the Circuit Court in your county.

Partnerships which have only general partners also must register their business using the fictitious name registration procedure and forms. Limited partnerships must file a certificate of limited partnership and pay the filing fee. The forms for registering a limited partnership can be obtained from the Florida Department of State, Division of Corporations, P. O. Box 6327, Tallahassee, FL 32314 (904-487-6050).

Corporations must prepare and execute articles of incorporation in compliance with the "Florida General Corporation Act." In addition, the papers must be delivered to the Division of Corporations, along with the required fees and taxes. The forms can be obtained from the Florida Department of State, Division of Corporations, P. O. Box 6327, Tallahassee, FL 32314 (904-488-9000).

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