

Legal Matters

Your Business Legal Structure

A business can take several different legal forms. Which one you choose will have an impact on how much it costs to start and run your business. The sole proprietorship is the least costly way to go into business, but it doesn't afford some of the legal protections of a corporate structure. Here are the characteristics and benefits of various legal forms a business may take.

Sole Proprietorship

If you want to run the business yourself, without incorporating, your business will be known as a "sole proprietorship." This is the least expensive way to start your own business. It is also the easiest because it requires less paperwork and you can report your business income on your personal tax return. One drawback to this type of business is that you are personally liable for any debts of the business.

Partnership

If you want to go into business with someone else, the easiest and least expensive way to do this is by forming a partnership. Legally, you would both be responsible for any debts of the company.

Working with a Partner

A good partnership requires a bit of planning if it is to run smoothly. You may want to have an attorney set up a legal partnership, spelling out what each partner contributes to and takes out of the business. Whether or not you form a legal partnership, talk with your partner and come to some firm conclusions about:

- What tasks each of you will be **responsible** for
- How you will make the day-to-day **decisions** of the business, and how you will break a tie
- What **percentage** of the business each will own
- How you want the business to **grow** in the future
- What **expectations** you have of each other

It is better to find out the areas where you need to **compromise** before you

open the doors. For example, one of you may want to have an event planning business as a fun part-time job, while the other wants to work full time and eventually build a business that will employ other people.



During your discussions you can learn if there are any areas where you need to compromise. You can avoid future misunderstandings by putting the points you have agreed on into a written “partnership agreement” that covers any possibility you can think of, including one of you leaving the business at some point in the future.

Corporation

Whether you are working alone or with partners, if you want a more formal legal structure for your business, you can **incorporate**. Incorporation can protect you from personal liability and may make your business appear more professional to some clients. However, it usually costs several hundred dollars and there are many rules and regulations involved with this type of business structure (among other requirements, corporations must file articles of incorporation, hold regular meetings, and keep records of those meetings). Many new business owners consult with an attorney before incorporating.

Limited Liability Company

A Limited Liability Company is a new type of business legal structure in the U.S. It is a combination of a partnership and corporation, and is considered to have some of the best attributes of both, including limited personal liability.

For more information about business structures, visit the Nolo website below:

Nolo Resource Center

Click on **Business and Human Resources**, then on **Starting a Business**, then on **Ownership Structures** <http://www.nolo.com>

Business Licenses

If you are planning to sell wholesale items, you will need an **occupational (business) license**, as well as a **resale number**.

Call your city hall to get the location of your local **Occupational License Office**,

where you will purchase a home occupational license. This is a license to work from home.

You will need to fill out your business name and phone number, and give some details on the nature of your business. Most questions on the form you will fill out are designed to detect and deter people who will be a nuisance or a risk to their neighbors, and will not apply to you. This license should cost you about \$100, and will be valid for one year. You will provide a photocopy of your license upon entrance to wholesale shopping establishments.

If you are not planning to be a wholesaler, you may not need to get a business license. Before deciding, see the advice from the Nolo.com article listed in the Resources on the next page. The U.S. Small Business Administration also has a webpage with links to information about business licenses:

Where to Obtain Business Licenses

<http://www.sba.gov/hotlist/license.html>

Resources

Proprietorship, Partnership or Incorporation? (Canadian)

<http://www.cbsc.org/osbw/session5/busforms.cfm>

Quicken: Incorporate Your Business Online

<http://quicken.incorporating.com/index.html>

Nolo Resource Center

Click on **Business and Human Resources**, then on **Starting a Business**, then on **Obtaining Licenses and Permits**

<http://www.nolo.com>

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