



Lecture 01; An Introduction to Business

Your goals for this introduction business Lesson are to learn about:

- *What constitutes a business*
- *What are different types of businesses*
- *The legal structure of businesses*

1. What is a Business?

Business is the activity of producing, buying, or selling goods and services for profit, aimed at satisfying customer needs. It can be:

- Hobby Business: Small, informal activities done for enjoyment with minor income.
- Lifestyle Business: Created to support a preferred lifestyle rather than maximize profit.
- Small Business: Formally organized, employs staff, and grows through management and delegation (e.g., stores, salons, accounting firms).
- Large Corporation: Major, structured companies operating nationally or globally.

2-Fictitious Business Name

Your business name can either be your personal name or a created brand name. It's best to select a name that reflects your company's identity or helps it stand out in directories like the yellow pages. If naming proves challenging, consider consulting a professional designer who specializes in branding and corporate identities.

Business names are typically registered with local, regional, or national government offices, depending on the scope of your operations. While some areas may not require formal registration, it's wise to check the rules in your location. Even if using your personal name doesn't legally require registration, doing so can be beneficial. It helps you stay informed about important business regulations, such as zoning rules, permits, and taxes. Additionally, it's a good idea to notify your bank, local chamber of commerce, and relevant tax authorities at the state and federal levels about your business name.

3-Legal Forms of Business

There are four main types of business structures: proprietorship, partnership, corporation, and LLC. Each has its own benefits and drawbacks related to how easy it is to start, tax obligations, and legal liability. A comparison table highlights the key features of each legal form.

Form of Entry	Ease of Control	Management of Owner	Liability	Taxation	Term of Existence
Proprietorship	Easy	Owner	Unlimited personally	Proprietor	Death of owner
General partnership	Easy	Partners by agreement	Unlimited	Partners; individual	Death of partner
Limited partnership	Must have written agreement	General Partners	Limited Limited partners	For Limited individual	For Death of any general Partners
C-Corporation	Complex	Board of Directors	Dollars invested	Corporation; individual	Forever
S-Corporation	Complex	Board of Directors	Dollars invested	Stockholders; individua	Forever
Limited Liability Company	Should have written agreement	Owners or Managers	Invested	Individual	Finite or indefinite

4-The Forms of Business

There are four basic forms of business

A-Sole Proprietorship

A sole proprietorship is the simplest business structure, requiring only a local license to start. It has one owner who controls all decisions and can close the business easily. However, the owner is personally responsible for all debts and liabilities, with no separation between personal and business assets. Profits are taxed as personal income, and there's no option to offset profits with previous losses.

B-Partnership

It has two types:

B1-General Partnership

A general partnership is formed when two or more people combine their resources to run a business and share its profits and losses. A written partnership agreement, though not required, is recommended to outline ownership shares, responsibilities, profit distribution, and procedures for partner changes.

It requires only local licenses to start, and the business ends if a partner dies, becomes insolvent, or mentally incapacitated. The major disadvantage is that all partners are personally liable for any business debts or obligations, including those made by other partners.

B2-Limited Partnership

A limited partnership includes at least one general partner who manages the business and one or more limited partners who only invest capital. Limited partners have no control over operations and are only liable up to their investment, while general partners have unlimited personal liability.

This type of partnership must be registered with the state and requires filing partner details, a written agreement, a certificate of rights and duties, and a public notice announcing limited liability partners.

Profits and losses pass directly to the partners based on their ownership share. Income is taxed at individual rates, but unlike proprietorships, losses can be carried back three years and forward fifteen. The business files a return with the IRS using Form 1065, and each partner reports their share on Schedule K-1 and Schedule E.

C-Corporation

There are two types of corporations: C-Corporation and S-Corporation. In both, ownership is represented by transferable shares of stock. Corporations are legally separate from their owners, allowing them to operate, borrow, and exist independently of ownership changes.

A key benefit is limited liability, meaning owners can only lose their investment and are not personally responsible for company debts unless they've given personal guarantees. Control is held by shareholders, who elect a Board of Directors to set policies, while officers and managers handle daily operations.

Corporations can raise capital by issuing stock, selling bonds, or borrowing funds. They file their own tax returns and pay taxes on profits. If profits are distributed as dividends, they are taxed again at the individual level, resulting in double taxation. Like partnerships, corporations can carry losses back three years and forward fifteen to reduce taxable income.

Advantages of a Corporation:

- * Shareholders have limited liability, meaning they are only responsible up to the amount they invested.
- * Corporations can raise capital by selling stock.
- * They can deduct employee and officer benefit costs.
- * They may choose S corporation status to receive partnership-style tax benefits.

Disadvantages of a Corporation:

- * Incorporation is more costly and time-consuming than other business forms.
- * Corporations face more regulatory oversight and paperwork.
- * Profits may be taxed twice—at the corporate and shareholder levels since dividends aren't tax-deductible.

C1.S Corporations Summary:

A S-Corporation is a tax election that allows business earnings to pass directly to shareholders' personal tax returns, avoiding double taxation. Shareholders who work for the company must pay themselves a reasonable salary, or the IRS may reclassify profits as wages and impose payroll taxes.

Eligibility Requirements:

- * Must be a domestic company with only voting and nonvoting stock.
- * Stockholders must be individuals (no nonresident aliens).
- * No subsidiaries or affiliated companies.
- * Maximum of 35 shareholders.

Taxation and Filing:

- * Legal liability is the same as a C-Corporation.
- * Shareholders must file Form 2553 with the IRS.
- * The company files Form 1120S (informational return).
- * Profits and losses flow through to shareholders, reported on Schedule E and Schedule K-1.
- * The business itself pays no federal income tax; owners pay on their personal returns.
- * Losses can be carried forward or backward to offset other income.

Incorporation Process:

- * File Articles of Incorporation with the Secretary of State.
- * Include business name, purpose, authorized shares, duration, and shareholder rights.
- * Appoint a Board of Directors and adopt bylaws governing stock issuance, meetings, voting procedures, director and officer roles, and amendment processes.

Management Structure:

- * Shareholders own the company.
- * The Board of Directors sets major policies and reports to shareholders.
- * Officers and management handle daily operations.
- * In small businesses, these roles may overlap.

Key advantage: Pass-through taxation avoids double taxation.

Key consideration: Strict IRS rules and more complex incorporation procedures than sole proprietorships or partnerships.

D-Limited Liability Company (LLC)

A Limited Liability Company (LLC) is a hybrid business structure that combines the limited liability of a corporation with the tax benefits and flexibility of a partnership.

LLC owners are called members, and the company's duration is set when it's formed but can be extended by member vote. An LLC can't have more than two of these corporate traits: limited liability, continuity of life, centralized management, and free transfer of ownership.

For tax purposes, LLCs are usually treated like partnerships unless they have more than two corporate characteristics, in which case they are taxed as corporations. Formation is more formal and complex than a general partnership.

Key Terms;

. Business; An organization engaged in producing, buying, or selling goods and services to satisfy customer needs for profit.

. Hobby Business; Small, informal activity done for personal enjoyment with limited income.

. Lifestyle Business; A business created to support a preferred way of living rather than maximizing profit.

. Small Business; A formally registered, independently owned business employing staff and operating on a limited scale.

. Large Corporation; A major, well-structured organization operating at national or global levels.

. Fictitious Business Name (Trade Name / DBA); A name used by a business that is different from the owner's legal/personal name.

. Business Name Registration; The process of legally recording a business name with local, state, or national authorities.

. Branding; Developing a unique identity for a product or business through name, design, and messaging.

. Corporate Identity; The visual and strategic image that represents a business (name, logo, colors, etc.).

. Sole Proprietorship; A business owned and operated by one person with unlimited personal liability.

. Partnership; A business owned by two or more people who share profits, losses, and responsibilities.

. General Partnership; All partners manage the business and share unlimited liability.

. Limited Partnership; A partnership with at least one general partner (unlimited liability) and one limited partner (liability limited to investment).

. LLC (Limited Liability Company); A hybrid structure offering limited liability protection with partnership-style taxation flexibility.

. Corporation; A legal entity separate from its owners, capable of owning assets, borrowing, suing, and being sued.

. C-Corporation; A corporation taxed separately from its owners; profits may face double taxation (corporate and individual levels).

. S-Corporation; A special tax status allowing profits and losses to pass through to shareholders' personal tax returns.

- . Liability; The legal responsibility for debts and obligations.
- . Limited Liability; Owners' financial responsibility is restricted to their investment in the company.
- . Unlimited Liability; Owners are personally responsible for all business debts.
- . Shareholders (Stockholders); Individuals or entities owning shares of stock in a corporation.
- . Board of Directors; The group elected by shareholders to set corporate policies and oversee management.
- . Pass-Through Taxation; Business income taxed on the owner's personal tax return rather than at the business level.
- . Double Taxation; Taxing corporate profits at the company level and again when distributed as dividends to shareholders.
- . Articles of Incorporation; A legal document filed with the state to create a corporation.
- . Bylaws; Internal rules governing how a corporation is managed.
- . Continuity of Life; The ability of a business to continue operating even when ownership changes.
- . Transferability of Ownership; The ease with which ownership (stock/shares) can be transferred from one person to another.
- . Term of Existence; The legal lifespan of a business (e.g., lifetime of owner, indefinite for corporations).
- . IRS Form 1065; Partnership tax return filed by general and limited partnerships.
- . Schedule K-1; A form reporting each partner's or shareholder's share of income and losses.
- . IRS Form 1120S; Informational tax return filed by S-corporations.
- . Reasonable Salary (S-Corp Rule); The required salary paid to shareholder-employees to comply with IRS regulations.