

Chapter 6: The Forms and Taxation of Business

How can a business be formed in the sight of the law?

- recognize business as an entity
- Legal Forms of business:
 - o Forms:
 - Proprietorships
 - Partnerships
 - Corporations
 - o Issues:
 - Taxes
 - Liability
 - Ease if starting, ending, and selling
 - o Proprietorship
 - Easy to start and end
 - **Single** taxation- taxable income, scheduled seat
 - Unlimited liability
 - Most common form
 - o Partnership
 - easy to start and end
 - single taxation
 - unlimited liability
 - Different forms:
 - **General Partnership**: were all partners are general partners
 - **Limited Liability Partnership**: in real estate; limited partners do not have any say in business aka not active managers
 - **Mast Limited Partnership**
 - o Corporation
 - Biggest businesses
 - Chartered by a state
 - Stockholders and shareholders
 - Double taxation
 - Limited liability
 - Different Forms:
 - **Conventional Corporation**
 - **Sub Chapter S Corporation**
 - **Limited Liability Corporation**
- Taxes:
 - o Types of Taxes:
 - Income Taxes
 - Excise or sales taxes
 - Property taxes

- Other taxes (Licenses, fees, VAT, etc.)
 - Assessment and Computation of Taxes:
 - Taxable Event * Tax Rate= tax due
 - Marginal versus average tax rates
 - **Tax planning & strategies:**
 - Always KNOW and COMPLY with the law
 - Taxes are different transactions differently
 - Analyze and model each transaction to understand the tax impact of each decision
 - Minimize taxes where legally possible
 - Defer taxes where legally possible
- Business Formation:
 - Expected Benefits Triangle: Quantity, Opportunity cost, and timing
 - The management process cycle: Reviewing, planning, executing
 - **Merger:** two companies come together to create one (with debt, equity, or cash)
 - **Acquisition:** when one company buys another's **assets**.
 - Logistics of buying another company:
 - Parent vs. subsidiary (wholly owned vs. majority owned)
- Types of Mergers and Acquisition: **Horizontal, Vertical, and conglomerate**
 - **Horizontal:** companies in same industry
 - **Vertical:** companies in different stages in related industries (soda company buys an artificial sweetener company)
 - **Conglomerate:** companies in unrelated industries
- Joint ventures, Licensing, Franchising, and Cooperatives