Choosing a Legal Structure, pt.1: The Sole Proprietorship and the Partnership

Once you have decided to start a business, you must decide what type of business entity to use. There are many legal and tax considerations that will enter into a sound decision. These legal considerations can become very involved and you should consult an attorney to help you determine the appropriate structure.

There are four principal forms of business structure in Alabama:
- The sole proprietorship
- The partnership
- The corporation and
- The limited liability company.

The decision should be based on your specific circumstances, goals, and needs. These structures, along with their advantages and disadvantages, are listed below:

The Sole Proprietorship

The sole proprietorship is a business that is owned and operated by one person. To establish a sole proprietorship, you need only obtain whatever licenses are required and begin operation.

Advantages
- Ease of formation
- Sole ownership of profits
- One owner has control and decision making power
- Flexibility in day-to-day management
- Relatively free from government reporting

Disadvantages
- Unlimited liability - this extends to all of the proprietor's assets, including the home and car. (But the impact may be lessened by proper insurance coverage.)
- Unstable business life - the business may be terminated upon the death of the owner
- Less available capital
- Difficult to obtain long term financing
- Relatively limited viewpoint and experience

The Partnership

The Uniform Partnership Act, adopted by many states, defines a partnership as "an association of two or more persons to carry on as co-owners of a business for profit." Though not specifically required by the Act, written Articles of Partnership are customarily executed. These articles outline the contribution by the partners into the business (whether financial, material, or managerial) and generally delineate the roles of the partners in the business relationship.

Some of the characteristics that distinguish a partnership from other forms of business organizations are
- The limited life of a partnership
- Unlimited liability partners
- Co-ownership of the assets
- Sharing of managerial duties
- A sharing of the profits

**Advantages**
- Ease of formation
- Direct rewards
- Growth and performance facilitated
- Flexibility in decision making
- Relative freedom from government reporting and special taxation

**Disadvantages**
- Unlimited liability of partners
- Unstable life - elimination of any partner constitutes automatic dissolution of the partnership
- Relative difficulty in obtaining large sums of capital
- Firm bound by the acts of just one partner or agent
- Difficulty of disposing of partnership interest