

Advantages and Disadvantages of the different legal forms of business

FACTORS TO CONSIDER	Sole Proprietorship	Partnership	Limited Company	Cooperative
• Legal formalities	simple and fast	more complex	more complex	complex
• Cost of legal formalities	low	medium to high	medium to high	medium
• Ownership of assets	owner (total)	partners (limited to their share)	shareholders (according to number of)	members (according to capital Invested) shares)
Financial responsibility	unlimited	unlimited	limited to shareholders' investment	limited to capital subscribed by members
• Control	owner	shared between partners	shareholders 1 vote per share	members 1 vote per member
• Initial investment	owner's investment	pooled investment of partners	according to number of shareholders	according to number of members
• External financing	limited to owner's borrowing capacity	limited to partners' borrowing capacity	possibility of stock and bond issues; debt capacity	limited to strength of cooperative
• Tax implications	taxed at owner's tax rate losses deductible from owner's taxable income	partners' tax rate on their share of profits losses deductible from income of partners	low rate on company income but dividends paid to share holders are taxable losses deductible from taxable company income	low tax rate on cooperative losses deductible only from income of the cooperative
• Continuity in case of decease or incapacity	no guarantee of continuity	none, unless provided for in partnership agreement	continuity rarely affected	Cooperative continues

