



OECS MODULE 3 ASSESSMENT

1. Why is it important to address the “legal health” of your company?

2. List 3 reasons to consider when choosing a legal form.
 1. _____
 2. _____
 3. _____

3. What are some of the disadvantages of a sole proprietorship?

4. What is the difference between a Limited Liability Company (LLC) and a Limited Liability Partnership (LLP)?

5. An S-Corporation is a type of corporation that provides _____ liability protection but permits _____ taxation.



OECS MODULE 3 ASSESSMENT ANSWER KEY

1. Prevention is the key to the legal health of a company. Legal issues can be avoided if an entrepreneur retains an attorney at the beginning of starting a business and seeks resources that help to business to avoid legal problems.
2. Liability, double taxation, and ownership.
3. You have no personal liability protection. If your business is sued, you could lose everything you own—and in some cases, your spouse could lose his or her assets also.
4. A legal form which provides liability protection for the company’s owners without requiring incorporation. LLCs have become the form of choice for many small companies. A Limited Liability Partnership (not to be confused with a “Limited Partnership,” above) is almost the same as an LLC but is used for certain professional practices, such as firms of attorneys or accountants.
 - **ADVANTAGES:** Personal liability protection for all owners and pass through profits without corporate taxes. Another benefit: profits can be distributed unequally—a 60% shareholder can take only 10% of the profits. This allows more flexibility for tax planning and for rewarding owners who bear more management responsibilities.
 - **DISADVANTAGES:** LLC laws vary by state; you are likely limited in the number of owners (investors) you can have, and some states do not permit international investors.
5. An S-Corporation is a type of corporation that provides **personal** liability protection but permits **pass-through** (rather than double) taxation.
6. For organizations that are formed for the public benefit, such as schools and philanthropic agencies.
7. Federal Employer Identification Number (FEIN)
8. Reseller’s license
9. A business license

10. If you use any name other than your own personal name for doing business, you'll need to file a "doing business as" or fictitious business statement, usually with your county government. This enables the public to know who's actually operating a company. You'll almost certainly have to publish this information in a local newspaper.
11. A business is able to accept payments via payment cards (e.g. debit cards, credit cards, and other forms of electronic payment).
12. As a business owner, you—naturally—want to reduce your costs as much as possible. When you hire someone to work for you, you can pay them in one of two ways:
 - **as an employee:** paying additional payroll, Social Security, and unemployment taxes, (and typically providing benefits); or
 - **as an independent contractor:** paying no additional taxes (and typically not providing any benefits).

As an individual working for others, you can work:

- **as an employee:** receiving less money in your pocket due to withholding taxes but also receiving more legal protections and typically more benefits; or
- **as an independent contractor:** often getting more money in your pocket since there are no withholding taxes, but also not receiving benefits and little or no worker protection, and also having to deal with the hassle and paperwork of handling and paying your own taxes quarterly or at the end of the year.