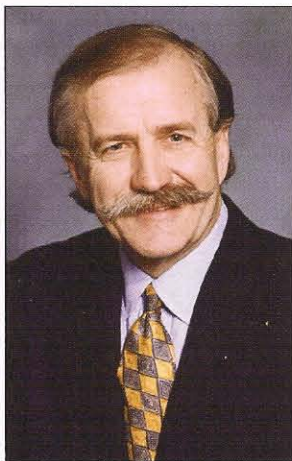


legal forms of business



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WHETHER YOU OPERATE A PRIVATE HORSE FARM, A BOARDING STABLE, A training facility or any other type of horse related business, consideration should be given to the legal form of business for your operation. The two most important issues influencing your decision will be the tax ramifications and your personal liability for the debts and liabilities of the business. Depending on your situation, you may choose to operate your business as a Sole Proprietorship, Partnership, Limited Partnership, Corporation, S Corporation, or Limited Liability Company.

SOLE PROPRIETORSHIP: The sole proprietor form of business is probably the most common form of small business ownership. As the name implies, there is only one person that manages the business, although there may be other employees. The sole proprietor is responsible for all of the decision making and ultimately for the success or failure of the business. The income and expenses of the business are usually included in the sole proprietor's individual tax returns. The biggest drawback to a sole proprietorship is the unlimited personal liability of the proprietor. All business debts and liabilities, including personal injury judgments, are the responsibility of the individual proprietor.

PARTNERSHIP: A partnership can be express or implied, oral or written. It is an association of two or more persons conducting business for a profit. In order to avoid misunderstandings, it is advisable to have a written partnership agreement. This should include rights and responsibilities, capital contributions and management decision making authority. Partnership income is taxed directly to each partner. A drawback is that each partner is personally liable for the liabilities of the partnership.

LIMITED PARTNERSHIP: A limited partnership includes at least one general partner and at least one limited partner. The general partner is responsible for the management of the partnership. The limited partner(s) contribute capital, but have no management rights. Partnership income is taxed directly to each partner. The major difference between a general partnership and a limited partnership is that the limited partner's liability for partnership debts is limited to the capital contribution to the partnership.

CORPORATION: A corporation protects its shareholders from unlimited personal liability for the debts and liabilities of the corporation. This is the single most important advantage of a corporation over other forms of business ownership. However, all the formalities of setting up the corporation and operating the corporation must be observed. Failure to do so may allow creditors to "pierce the corporate veil" and subject the officers, directors and shareholders to personal liability. The single biggest disadvantage to the corporate form of business is the potential for "double taxation." First, the corporation's profits are subject to corporate income tax. Then, when those profits are distributed to the shareholders, they are taxed again as income to the shareholder.

S CORPORATION: An S Corporation is a special kind of corporation recognized by the Internal Revenue Service which avoids double taxation. The S Corporation is taxed similar to a partnership. Although an S Corporation has certain limitations, it is often well suited for small businesses. However all the formalities of operating a corporation must be maintained.

LIMITED LIABILITY COMPANY (LLC): Many states have recently enacted statutes recognizing Limited Liability Companies. LLC's have the same advantage as corporations in that they protect the owners from personal liability. They also have the advantage of an S Corporation or partnership, in that they avoid the problem of double taxation. Moreover, they have additional flexibilities that an S Corporation does not have. The Limited Liability Company form of business is rapidly becoming the model of choice among many small business owners.

It is a good idea to consult with an experienced attorney for advice about the best form of business for your situation.

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