

Legal Structures Case Studies

Activity One:

Has your state placed materials related to forming a business on its website? If so, you may find these materials helpful in forming a small business, such as a community pharmacy. Through the Internet, access your state website/homepage. Search the website for a link labeled “Business” or “Secretary of State” and select the link. On the web page that appears, search for a link labeled “Starting a Business” (or similar label). If found, select the link and retrieve and review the materials attached to the link. Typically the link will contain information about selecting a business structure.

In addition to providing guidance on starting a business, your state website may contain “filing guides” that describe the procedures required for legally establishing partnerships, corporations and limited liability companies. Filing of these documents is typically accomplished with the Office of the Secretary of State. Search your state website/homepage for a link labeled “Secretary of State.” If found, select the link and retrieve and review the materials attached to the link that describe procedures for establishing partnerships, corporations and limited liability companies.

If your state has not placed such materials on its website/homepage, or if you cannot find the links described above on your state website, you can obtain help by looking at websites for other states. Although not specific to your state, the materials will be helpful since the requirements for establishing a small business are similar among the states. For purposes of furthering your understanding of this module, you can retrieve and review extensive materials on the State of Tennessee website at www.state.tn.us.

Activity Two:

In addition to materials available on state websites, the United States Department of the Treasury, Internal Revenue Service (IRS), has placed on its website many helpful materials related to the operation of a business enterprise, including materials on business structures. Through the Internet, access the IRS website at www.irs.ustreas.gov.

Under “Contents”, select “Businesses.” On the web page that appears, in the second paragraph of text find and select “Small Business/Self Employed.” On the web page that appears, scroll down to “Quick Links” and locate “Starting a Business.” Under this heading you will find the items “Checklist,” “Business Structure” and “Record keeping.” Select “Checklist” and find the first bulleted paragraph that begins “Select a business structure.” Select, retrieve and review the “Small Business Startup Kit” referenced in the paragraph and provided by the United States Small Business Administration (SBA).

Upon completion of the SBA Small Business Startup Kit, return to the IRS website and select “Business Structure” where you will find a listing of the following five structures:

Sole Proprietorships
Corporations
LLC’s or LLP’s

Partnerships
S Corporations

Select, retrieve and review the materials for each of these items.

Activity Three:

As discussed in the module, treatment of business revenue and expense in relation to the business owners differs based upon the business structure utilized. To gain understanding of how business revenue and expense are treated, and to further your understanding of different business structures, it will be helpful to review various tax forms available on the United States Department of the Treasury, Internal Revenue Service (IRS) website. Through the Internet, access the IRS website at www.irs.ustreas.gov. On the IRS website you will find a “search box” to search for forms and publications. With respect to the forms and publications to be retrieved as described below, retrieve the latest tax year (fiscal year) available on the website.

To begin, type “schedule c” in the search box. On the web page that appears, select, retrieve and review the following items (or you can enter each item listed below into the search box to retrieve the item more quickly).

Form 1040 (Schedule C-EZ)
Form 1040 (Schedule C)
Instruction(s) 1040 (Schedule C)

Upon reviewing the above, return to the IRS website and type “Form 1065” in the search box. This is the Form that is used to report partnership business revenue and expense. On the web page that appears, select, retrieve and review the following items (or you can enter each item listed below into the search box to retrieve the item more quickly).

Form 1065-B (Schedule K-1)
Form 1065 (Schedule K-1)
Form 1065
Form 1065 (Schedule D)
Form 1065-B
Instruction 1065 B
Instruction 1065
Instruction 1065 SCH K-1

Upon reviewing the above, return to the IRS website and type “Form 1120” in the search box. This is the form that is used to report corporation business revenue and expense. On the web page that appears, select, retrieve and review the following items (or you can enter each item listed below into the search box to retrieve the item more quickly).

Form 1120
Form 1120A
Form 1120S
Instruction 1120 & 1120A
Instruction 1120S