



## FORMS OF ORGANIZATIONS

There are many types of organizations. We can separate them into two major divisions: organizations existing to create profits (profit organizations. Includes business entities) and organizations that exist primarily for another purpose (non-profit organizations. E.g: charity organizations).

3 Types of Business Entities and their common characteristics:

### 1. Sole Proprietorships.

Sole proprietorships are business that are owned and operated by one person: the sole proprietor. The owner and the business, is then the same. For tax purposes, a sole proprietorship is not a taxable entity, and any profits earned by the business are taxed on the return of the individual. The proprietor must develop an accounting system that distinguishes between his/her personal affairs and that of the business.

### 2. Partnerships.

Partnerships are businesses that are owned by two or more individuals. For small partnerships, the agreement is often an oral agreement between the partners but it is highly recommended that the agreement be formalized as is done in bigger partnerships like public accounting firms and most law firms. In partnering up with individuals in the past, I felt it was important to outline the division of profits and expenses, as well as the expected responsibilities of the partners in a written agreement.

### 3. Corporations.

A corporation is an entity organized under the laws of a particular state. That means that it can get into contractual agreements into its own name. They are identifiable by the existence of shares.

There are advantages and disadvantages of each of the above types of business entities. And each is suited to the same business under different stages of its growth. For most, arts and entertainment independent contractors, it is probably Sole Proprietorships and Partnerships that are most common for their use.

### Non-Business Entities

Most non-business entities are organized to serve the needs of various segments of society. Examples of these non-business entities are public hospitals, public schools, the police and the army. All of these entities are distinguished by the lack of an identifiable owner. Because of this and the non-profit motive to these organizations, their accounting systems are modified to fit their activities. The type of accounting they use are referred to as fund accounting.

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This article was written for OrangesAndLime.com, to help creative individuals — artists, musicians, designers, illustrators and entertainers — build their own freelance businesses. Please note that this article serves as a guideline only. You should still seek professional advice regarding the matter because laws and practices change over time and they differ from country to country.

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