

Business Formation Assignment

Scenario A: The Artisan and The Visionary

Most Appropriate Business Type: Limited Liability Company (LLC)

Rebecca should set up a Limited Liability Company (LLC). This system provides the critical benefit she is looking for: limited personal liability. According to Piotrowski, one of LLC's primary benefits is that members' liability is limited to their investment, protecting personal assets in the event of a lawsuit or financial loss (Piotrowski, p. 466). Rebecca is risk-averse, so this protection is important.

Another advantage of LLC is its ability to distribute and manage profits in different ways. Unlike a sole proprietorship, an LLC allows Rebecca to add junior designers as members or employees without altering the basic structure. It also offers helpful tax treatment, LLCs can be taxed similarly to sole proprietorships or partnerships, allowing income to "pass through" to Rebecca's personal tax return (Piotrowski, p. 467).

Compared to sole proprietorship, which is easier to create and provides complete creative control, the LLC still provides independence but without unlimited personal liability that might harm her savings or home (Piotrowski, p. 460-462). A corporation would be too complicated and pricey for a new business owner, requiring bylaws, annual stockholder meetings, and double taxation in the form of corporate income tax and personal dividend tax (p. 469). A general partnership would also not be suitable for her since she is not starting the business with another equal partner and does not want to share control or responsibility.

In conclusion, the LLC is a perfect balance between flexibility, protection, and future growth potential, making sure Rebecca stays in control, minimizing risk, and providing a path to growing with junior staff.

Scenario B: The Commercial Powerhouse

Most Appropriate Business Type: Corporation (C Corporation)

A Corporation is the best option for this group of three commercial interior designers who aim to secure large contracts and grow in the future. According to Piotrowski, corporations provide a strong legal barrier between the company and its owners, limiting personal liability to the amount invested (Piotrowski, p. 468). This is important when dealing with high-value government and commercial contracts since risk and liability can be serious.

The corporation's structure makes it possible to raise significant capital, which they may need. They can issue stock to attract investors or future employees through equity benefits, which is consistent with their goal of attracting top talent (Piotrowski, p. 469). Corporations also gain from continuity, if one of the founders leave or sell their shares, the company can continue to run without delay, which is important for long-term success.

Other options, such as LLC or S Corporation, may have liability protection and simplified taxation, but both have limits. LLCs may have limited capital-raising potential, especially when

issuing equity or raising venture capital. While S Corporation allows for pass-through taxation, it is limited to one hundred shareholders and cannot take corporate investors, making it less flexible for growth (Piotrowski, p. 470). A general partnership would put all partners to unlimited liability, being a significant risk in high-value contracts (Piotrowski, p. 461). A limited partnership still needs at least one general partner with full liability (Piotrowski, p. 461). These are unacceptable risks for a commercial company of this size.

In conclusion, a full C Corporation is the preferable structure, offering liability protection, capital flexibility, and continuity, all of which are important to creating commercial credibility and long-term success.

Scenario C: Flexible Specialist

Most Appropriate Business Type: Joint Venture (JV)

A Joint Venture (JV) is the most appropriate business structure for this scenario. A joint venture allows two interior designers to work together on specific projects without forming a long-term, formal partnership or corporation (Piotrowski, p. 472-473). Piotrowski defines a Joint Venture as a temporary partnership between individuals or firms formed for the duration of a specific project or business venture, after which it dissolves (Piotrowski, p. 472-473). This makes it an excellent choice for two professionals who want to maintain separate client bases while collaborating on specific projects that require their combined expertise.

In this case, both designers have related specializations: one in technical, code-intensive projects, the other in branding and experiential design. They want to collaborate on select large-scale projects, bring in consultants as needed, and work across multiple states. A joint venture is great for this level of flexibility. As Piotrowski explains, firms in a joint venture continue to work independently on their own projects while focusing solely on the agreed-upon venture, usually under a new, temporary name (Piotrowski, p. 473).

A general or limited partnership would create unneeded liability and management relationships for professionals who have no plans to share complete financial or operational control (Piotrowski, p.461). While corporations give liability protection, they also need extensive paperwork, ongoing compliance (e.g., bylaws, board meetings), and a formal management structure that is too much for a temporary, project-based collaboration (Piotrowski, p. 469-470).

In conclusion, a Joint Venture matches the designers' goals of independence, project-specific collaboration, low overhead, and professional alliances, making it the appropriate structure for their new venture.

Works Cited

1. Piotrowski, Christine M. *Professional Practice for Interior Designers*. S.L., John Wiley & Sons, 2020.