

1  **Agribusiness Procedures**

SELECTING THE FORM OF BUSINESS

2  **Business Forms**3  **Special Varieties To Consider**

• The Sub-chapter S Corporation

○ An "S" corporation is the same as any other business corporation with one important difference - the IRS allows it to be taxed like a partnership, a pass-through entity.

○ Many people begin corporate life as an S corporation when there are losses to offset their "paycheck" income and then revert to standard C corporation status when the corporation begins to make taxable profits.

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It is important to remember that being an S corporation (vs. a standard C Corporation) is a tax matter only.

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4  **Special Varieties to Consider**

• The Limited Liability Company

○ Available in 49 states, including Iowa

○ Features pass-through taxation of the partnership, and limited liability of the corporation.

○ Law regarding the LLC is still evolving and some issues regarding its operation remain unsettled.

○ Employment tax favors the S Corporation but the amount of paperwork involved may offset this as a benefit.

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5  **Special Varieties to Consider**

• Professional corporation

○ Allows professionals (lawyers, doctors, CPAs) to practice together.

○ Organized for the sole purpose of providing a service


○ All shareholders are required to be licensed professionals in the state of Iowa.

○ Still liable for malpractice

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This is a common form for Veterinary clinics.


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6  **Which form would you recommend for ACME (from Looney Tunes)?**7  **Which form would you recommend for Wonka Industries?**8  **Santa's Workshop**9  **Wayne Enterprises**10  **Mario Brothers**11  **Springfield Nuclear Power Plant**12  **Agribusiness Procedures**

BUYING EXISTING

VERSUS

"STARTING UP NEW"

13  **Starting a New Business**14  **Buying an Existing Business**15  **Buying vs. Starting**

It looks like there are more pros than cons to buying compared to starting.

BUT there is a LOT of investigation ("Due Diligence") involved!

1) Why does the owner wish to sell? new competition, traffic re-routing, leases expires, cash flow, etc.

2) What is the physical condition of the business?

Tangible: building, equipment, inventory...

Intangible: accounts receivable, lease, financial records, mailing lists, trademarks, patents, copyrights, goodwill, accounts payable contracts...

3) What are you buying?

Stock purchase of a corporation means you buy the business assets, assume its liabilities (debts), and assume contracts and other formal/legal relationships.

Asset purchase you buy only the assets of the company; usually all contracts must be renegotiated between the new parties and debts remain with the seller. (Sole Prop. and Parts.)

Buy the Company Assets and some or all of the liabilities, contracts or legal relationships. (Sole Prop. and Parts.)

4) What is the potential for the company's products & services? - customer characteristics, vulnerability to competition, seasonality, fads, changing demographics or lifestyles...

5) Legal Aspects to consider? Complexity of transferring title (liens, etc.), Liabilities and their responsibilities,

Bulk Transfer requirements (section 6, Uniform Commercial Code), Rights & obligations with suppliers, employees, lessors, lenders, customers... , Organizational structure for management , Legal form of business,

Covenant not to compete , Legal liabilities: physical premises, product claims, labor relations...

6) Is the Business financially sound? - accounting practices (creative?); financial records: income statements, balance sheets, tax returns, owner's compensation records