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Legal Aspects of the Music Industry

Lesson 2: Choosing a Business Entity

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The next step in setting up a business is to decide on the type of organizational structure for which your business is best suited. Any business entity, whether it be a booking agency, record label, publishing firm, etc., or a band, will fall within some type of organizational structure. There are several to choose from, and each has its unique characteristics that affect the obligations and expectations of those who comprise the business. Each also has different legal considerations. The structures that we'll examine are the: sole proprietorship; partnership; limited partnership; corporation; and LLC, limited liability company.

The key questions that must be asked before deciding on a business entity are:

1. Who will have the right to make business decisions?
2. How will the business pay taxes on its expected profits?
3. Who shares in the profits, and the losses?
4. Who is liable for the debts of the business, as well as for judgments in lawsuits stemming from, e.g. breach of contracts and acts of negligence?

The answers to these questions will usually point to one of the above structures. Of the five, the sole proprietorship and partnership are fairly easy to set up. The others are more complex, such that an attorney's advice may be necessary.

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Your text provides much information about these structures, and why one might be chosen over the others, but here's a brief overview:



Identify the type of structure described in the text.

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When deciding on a business entity, keep in mind the following factors: ownership, management, profit-sharing, taxation, and liability. With some analysis of what you're setting out to do, one will clearly emerge as the best choice.

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Describe a business (which could include a musical performing group) in which you'd like to be involved, the organizational structure you would choose for it, and why. You will post your description, as part of this week's assignment, at the end of the lesson.

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