

# MEMO

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Student's name

Institutional Affiliation



**To:** File

**From:**

**RE:** Cupcake Taxes

## Facts

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Mimi Chapantier is an entrepreneur who runs a cupcake business in the realm of sole proprietorship. After a venture in the latter type of business enterprise, she is destined to incorporate her business. This is after rigorous analysis of advice given to her by her attorney, Willis. In doing so, she has decided that she will take sixty per cent of the stock. Twenty per cent of the stock will be allotted to Nancy, her daughter, and Jane, the chief operating officer of the business. The proprietorship is debtless with no inventory due to the fact that the enterprise deals with perishable goods. Moreover, she owns three buildings as part and parcel of the venture. However, it is discovered that she has a two year ultimatum life expectancy from the date of incorporation.

## Issue and conclusion 1

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Does incorporation of a sole proprietorship venture have any pros and cons?

Yes it does.

## Analysis 1

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In terms of benefits of the process, it is important to note that accountability and liability in the case of cooperation is much more spread to the stock owners. This is contrary to the sole proprietorship where a single person

jeopardizes his or her own assets. Nancy, Mimi and Jane will all enjoy the privilege of spreading the venture's liability in case of a big liability, probably through lawsuit.

The cons are associated with the fact that cooperation is majorly centered towards taxation. The cooperation to be created by the three entrepreneurs will have to incur some fees on state filing returns. This type of returns usually requires that any enterprise in a given state file yearly to the secretary of state.

The cooperation formed will also have to incur some losses on tax returns. On top of this fee, they are also expected to incur IRS charges and levies.

## Issue and conclusion 2

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What is an asset's basis?

This is a measure of funds a person paid for certain goods or services.

## Analysis 2

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It should be noted that all the assets owned by the company will be subject to taxation by the government (Goodman et al., 1987). Assets like land owned by the business will be subject to increased taxation due to appreciation of their value with each passing day. Such an increase in taxation is normally termed increases to basis. On the other hand, machinery in the enterprise will be subject to basis taxation method. This is basically due to depreciation of machines' value with time.

The challenging part of the basis in the business is the fact that Mimi, Nancy

and Jane all invested in their business in different times. Their individual basis vary depending on new injected capital, retained profits or even retained losses. Moreover, the cupcake enterprise itself can depict ownership of assets. Therefore, such a basis asset should be noted.

The cited challenges can be overcome by hiring an accountant in the enterprise. The dynamic nature of the enterprise basis aspects can, thus, be easily tracked down with sophisticated methods.

## Issue and conclusion 3

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Will the change in type of ownership have an impact on the sales?

Yes. It will affect the sales.

## Analysis 3

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The matter of sales is definitely a reflection of two sides of the coin phenomena. Sales highly depend on many factors taken into consideration. The incorporation will definitely create a shift in sales on the beam balance. The question that arises is where then will it swing to? If the three entrepreneurs decide to rebrand the enterprise, then it will have positive or negative results depending on the nature of the new brand. Since decisions will have to be made as a group, caution should be undertaken to ensure the customer base both in Facebook and social sites are satisfied with the change. Any blunders during this transition period will lead to loss of faithful customers, thus dealing significant harm to the business.

The question of sales optimization will highly depend on creativity of all parties. It is quite hard to provide a yard stick with which the enterprise can



foresee all possible effects on sales.

However, good research can provide the business with 'dos' and 'don'ts' in the budding period.

## Issue and conclusion 4

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What laws govern the movement to a corporation owned by a transferor?

The laws are clearly stated under the United States codes, SC 351.

## Analysis 4

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These sets of laws provide clear guidelines to persons like Mimi. The general rule of the code stipulates that there shall be no gain or loss if a person swaps property for stock, hence acquiring control over the cooperation. A stepwise listing giving an overview of codes governing the shift is presented below.

- The general rule
- Rule on property receipts
- Rules governing distribution to shareholders
- Services, indebtedness, interests
- Exceptions

It is evident that the grasp on the set up laws would be a necessity for the enterprise. Information is power. Its degree of necessity can not be underestimated bearing in mind that a breach of any codes will land anyone in trouble. Assets can be lost through ignorance. This directly translates to loads of cash being lost daily from failure to abide by the law.

## Issue and conclusion 5

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What roles will Mimi play? What asset will she contribute?

She will be essential in ensuring smooth running and transition of the enterprise. She should contribute majorly in terms of depreciating assets.

## Analysis 5

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Mimi should contribute assets that are not of appreciating nature. Contribution of factors of valuable production will lead to losses in case of liability lawsuits. In terms of role, she will ensure smooth transition of the business as she winds up her role. This will be good in bridging the gap as she will leave being easily.

## References

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Goodman, M., & Canadian Tax Foundation. (1987). *1986 tax developments*. Toronto: Canadian Tax Foundation.