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Fisheries & Tourism Fact Sheet Series: Models for Fisheries and Aquaculture Tour Businesses

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FISHERIES & TOURISM

FACT SHEET SERIES

Models for fisheries and aquaculture tour businesses

As the owner of a fishing boat or an aquaculture farm, you likely have already chosen the type of business under which you operate, whether a *sole proprietorship* or a more complex business structure like a *partnership* or *corporation*. But if you are thinking about operating a tour boat or opening your aquaculture farm to tourists, you may want to reconsider your business structure. In particular, if you plan to bring any partners into the business, you will want to ensure that you and any partners or investors are protected from legal liabilities.

The basics are described here, but an attorney can explain the details and various benefits of each business type.

Sole proprietorship

A person owns all business assets, is personally responsible for all liabilities (taxes, debts, etc.), and operates on his or her own behalf. This is the simplest structure and does not require registration with the state; in the government's view, the sole proprietor or business owner is the business. In cases of civil liability judgment, not only the business assets but all personal assets of the business owner are considered (house, property, vehicles, etc.).

Partnerships

General partnership

Two or more persons own the business and participate fully in running it. A general partnership is structured like a *sole proprietorship*, except more than one person shares in the profits, losses, and liabilities. No state registration is required. A partner can legally bind the other partners to contracts or incur liability on behalf of all partners, with or without their knowledge.

Limited partnership

One or more *general partners* are in charge of operations and are personally liable for any debts, etc., and one or more limited partners invest in the company and share profits under a contract agreement. Limited partners cannot manage the business and are only liable for the amount of their investments. A formation certificate must be filed with the state.

Limited liability partnership (LLP)

A partner is not responsible for actions of any other partner or employees not under their supervision. A formation certificate must be filed with the state. Like a general partnership, all partners share in the profits and losses and each is taxed equally.

Corporations

A *corporation* allows the owners/investors personal liability protection (limited to the amount invested), and also has more beneficial tax structures. Corporations are designed to protect investors of a company from being held personally liable for the actions of the corporation. There are two types: the *C corporation* and the *S corporation*. The difference is in the tax liability of each. C corporations are taxed twice: the income of the business is taxed,

and when the income is distributed to the shareholders it is taxed again. An S corporation is only taxed once, at the distribution level. Either may be a *close corporation*, which has no more than 20 shareholders, and thus would be an option for fishing or aquaculture tour operators. Articles of incorporation must be filed with the state.

Limited Liability Company (LLC)

An LLC offers personal liability protection like a corporation, with the tax structure of a partnership. A formation certificate must be filed with the state.

There is no cost to file business formation or incorporation paperwork with the state, but there will be fees associated with consulting an attorney to do this work on your behalf. ■



Chris Bartlett

This fact sheet is part of a series intended to provide resources for fishermen and aquaculture farmers who seek to augment their earnings through tourism. More information, including the legal research upon which these fact sheets are based, can be found at seagrant.umaine.edu/fisheries-tourism.

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