

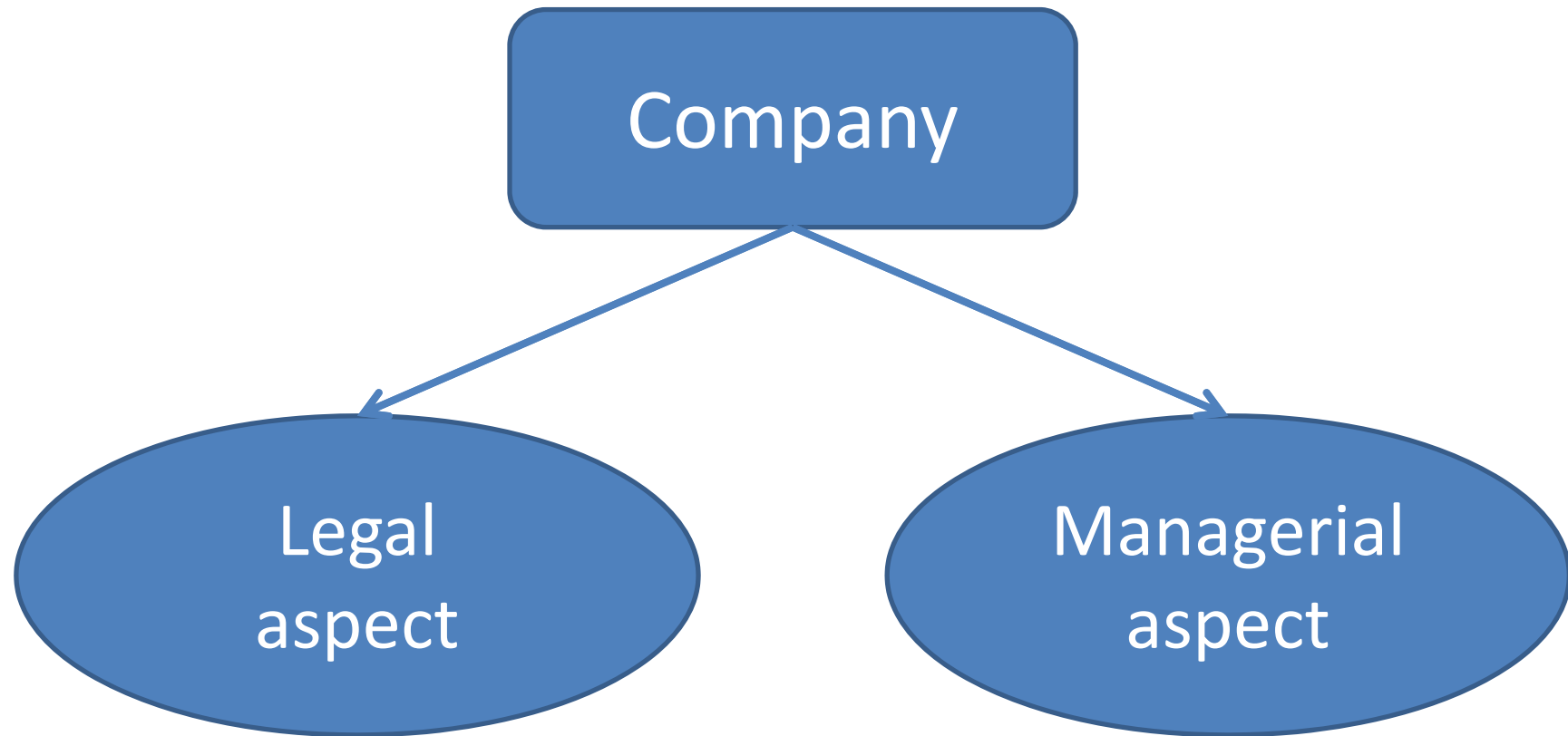
Legal Structure

Construction Project Management

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Company Organization



Why Legal Structure is Important?

- Taxation
- Liability
- Resource
- ...

Types of Legal Structure

- Proprietorship
 - One person conduct business.
- Partnership
 - Two or more people conduct business.
- Corporation
 - A legal entity is created to conduct business.

Joint Venture (JV)

- A business undertaken by two or more entities
- A agreement between parties for a particular purpose and period
- JV can operate
 - without creating a new legal entity
 - in the form of a new legal entity
- Examples:
 - Six companies for the Hoover dam construction
 - JVs for Albertan oil sands in Canada
 - The consortium for the Channel Tunnel

Special Purpose Company (SPC)

- Also known as special purpose vehicle (SPV)
- A financial structure separated from the sponsor's balance sheet
- SPC can have the characteristics of JV
- Widely used in project financing
- Corporate financing vs. project financing [1]
 - Corporate financing: the new initiative is financed on the balance sheet of its sponsors.
 - Project financing: the new project is incorporated into SPV and financed off balance sheet.
- Examples
 - Incheon Bridge Co., Ltd.
 - Electric power companies sponsored by construction companies.

Proprietorship Example

- Construction workers are usually not employees of a company; they are freelance as sole proprietors [1].
- Other Examples:
 - Landscaper
 - Small neighborhood bakery
 - Automobile repair shop

Proprietorship

- Simplest business entity
- One person with a full control of the company
 - Asset
 - Profits / losses
- Taxed as an individual
- Limited resources
- No limited liability
- No continuity beyond the proprietor

Tax Example for Proprietorship

- Hyoungkwan has a small consulting business in project management

Revenue: \$500,000

Expenses: \$200,000

Before-tax income:

Deductions & Exemptions: \$30,000

Taxable Income:

Tax (33% for proprietorship [1]):

1. In Korea, proprietors with more than 88,000,000 Won income has 33% tax rate.

Partnership Example

- A civil engineer with PhD in geotechnical engineering, an architect with design experience, and a lawyer with management experience start a consulting company for underground space creation.
- Other Examples:
 - Skidmore, Owings and Merrill
 - Law firms
 - Accounting firms

Partnership

- Two or more partners
- More resources compared to proprietorship
- More credits compared to proprietorship
- Profits or losses are allocated according to the ownership distribution
- General partners can control the management, but have unlimited liability
- Limited partners have no say in management, but have limited liability
- Arrangements can be made for the continuity of firm in the event of death of a partner.
- Partnership is not taxed; only partners are taxed.

Corporation

- Legal entity separated from the owners
- Perpetual succession
- Double taxation
- Limited liabilities
- Closely held corporation
 - risk protection
 - a high level of management control
- Publicly traded corporation
 - risk protection
 - stocks traded to raise capital
- Complex procedures required to establish and maintain a corporation
- Domestic vs. foreign corporations

Double Taxation Example for Corporation

- Hyoungkwan incorporated his proprietorship – Hyoungkwan Enterprise, Inc.

Before-tax income with the proprietorship: \$300,000

Corporate tax (20% [1]):

After-tax income:

Dividend to Hyoungkwan: \$140,000

Personal deductions & exemptions: \$30,000

Personal taxable income:

Personal tax (33% [2]):

Total tax:

1. In Korea, corporations with 200,000,000 to 20,000,000,000 Won income has 20% tax rate.

2. In Korea, proprietors with more than 88,000,000 Won income has 33% tax rate.

Another Tax Example for Corporation

- Hyoungkwan incorporated his proprietorship – Hyoungkwan Enterprise, Inc.

Before-tax income with the proprietorship: \$300,000

Hyoungkwan's salary (expense): \$70,000

Gross income of corporation:

Corporate tax (20% [1]):

Personal deductions & exemptions: \$30,000

Personal taxable income:

Personal tax (15% [2]):

Total tax:

1. In Korea, corporations with 200,000,000 to 20,000,000,000 Won income has 20% tax rate.

2. In Korea, people with 12,000,000 to 46,000,000 Won income has 15% tax rate.

Legal Structure Selection Depends on

- Establishing Costs
- Risk and Liability
- Attraction of Capital
- Taxation
- Continuity of the firm
- Administrative flexibility
- Laws governing operations
- Nature of the Business