

CHOOSING A BUSINESS STRUCTURE

Legal and tax considerations enter into your selection of a business structure. Common business types are sole proprietorship, partnership, corporation, S corporation and limited liability company. Your business type determines which tax form you will need to file.

Sole Proprietor - An unincorporated business owned by an individual. The simplest, yet riskiest, form of doing business.

Partnership - Two or more persons are joined to carry on a trade or business. Each individual contributes property, money, skill or labor, and expects to share in the profits and losses.

C-Corporation – Shareholders obtain stock in the corporation in exchange for money, property, or both. Profits are taxed to the corporation and then taxed to the shareholders when distributed as dividends.

S Corporation - A corporation that having met certain criteria elects to be treated as an S Corporation. The shareholders report the S Corporation’s income, deduction, loss and credits on their individual returns. The S Corporation is generally exempt from income tax.

Limited Liability Company – Statutorily authorized in certain states, this entity is characterized by limited liability for debts, similar to that of a corporation. Management is by members or managers, and taxation is pass-through, similar to that of a partnership.

	Ownership	Taxation	Asset Protection	Benefits	Disadvantages
Sole Proprietor	Individually owned and operated. All risk rests with proprietor	One level of tax, at individual rate. Also subject to self employment tax File Schedule C as part of your individual tax return	None – Owner is solely responsible for business liabilities	Simple and easy to establish	No separation between owner and business
Partnership	Partners	Partnership files its own return. File Form 1065. All net profits./losses pass through to the tax returns of the partners	Generally the partners are liable for actions of the partnership and personal assets can be attached to satisfy a judgment		No liability protection to partners
C-Corporation	Shareholders	Corporation files its own tax return. File Form 1120	Shareholders generally not liable for corporate obligations	Centralized Management, transferability, credibility, fringe benefits, asset protection	Corporate formalities such as board meetings and corporate minutes
S-Corporation	Shareholders	S-Corp files it’s own return. File Form 1120S. All net profits./losses pass through to the tax returns of the shareholders	Shareholders generally not liable for corporate obligations	Centralized Management, transferability, credibility, fringe benefits, asset protection	Restrictions on classes of stock, number of shareholders and type of shareholders.
LLC	Members	Pass-through, or taxed as Corporation. Determined by election.	Members generally not liable for corporate obligations	Asset Protection, One level of taxation, Management flexibility	Lack of uniformity from State to State