



Entity Selection

Sole Proprietorships

Business is run by one individual for his or her own benefit. It is the simplest form of business organization. Proprietorships have no existence apart from the owners. The liabilities associated with the business are the personal liabilities of the owner, and the business terminates upon the proprietor's death. The owner undertakes the risks of the business to the extent of his/her assets, whether used in the business or personally owned.

Advantages

- Easy to form and operate
- Minimal legal restrictions
- Ease of discontinuance
- The owner is the boss, making all decisions, keeping all the profits and assuming responsibility for all losses and debts
- Owner reports business profits/losses on their personal tax return

Disadvantages

- Difficulty in raising capital
- Limited life of business
- Unlimited liability

Partnership – General

A general partnership is an agreement, expressed or implied, between two or more persons who join together to carry on a business venture for profit. Each partner contributes money, property, labor, or skill; each shares in the profits and losses of the business; and each has unlimited personal liability for the debts of the business.

Advantages

- Greater possible capital availability
- Greater resources for decision making, support, creative activity

Disadvantages

- Unlimited liability of partners
- Divided authority

Partnerships – Limited

Limited partnerships limit the personal liability of individual partners for the debts of the business according to the amount they have invested. Partners must file a certificate of limited partnership with state authorities.

Advantages

- Greater possible capital availability
- Greater resources for decision making, support, creative activity
- Limited liability of limited partners
- Easy to form and operate

Disadvantages

- Unlimited liability of general partners
- Divided authority



Limited Liability Company (LLC)

An LLC is a hybrid between a partnership and a corporation.

Advantages

- Allow greater flexibility for customizing the structure of the business
- Limits member liability
- In many states an LLC may have only one member (have the benefits of a sole proprietorship but limits liability)

Disadvantages

- Requires comprehensive operating agreement because of the high degree of variability/flexibility

Small Business Corporation (S-Corp)

Subchapter S-corporations are special closed corporations (limits exist on the number of members) created to provide small corporations with a tax advantage, if IRS Code requirements are met. Corporate taxes are waived and reported by the owners on their individual federal income tax returns, avoiding the "double taxation" of regular corporations.

Advantages

- Limited liability to stockholders
- Perpetual life of business
- Ease of transferring ownership
- Ease of expansion of the company

Disadvantages

- Government regulation
- Costs to organize a corporation are higher
- Unless permission is obtained from other states, the corporate charter restricts operations to the state where it is issued
- Must hold annual meetings and record meeting minutes
- Limits number of shareholders, who must be U.S. citizens or residents
- Owners report their share of profit/loss in the company on their personal tax returns.

Corporation (C Corps)

A corporation is a legal entity under state law, whose scope of activity and name are restricted by its charter. Articles of incorporation must be filed with the state to establish a corporation. Stockholders' are protected from liability and those stockholders who are also employees may be able to take advantage of some tax-free benefits, such as health insurance. There is double taxation with C Corps, first through taxes on profits and second on taxes on stockholder dividends (as capital gains).

Advantages

- Limited liability to stockholders
- Perpetual life of business
- Ease of transferring ownership
- Ease of expansion of the company

Disadvantages

- Government regulation
- Costs to organize a corporation are higher
- Unless permission is obtained from other states, the corporate charter restricts operations to the state where it is issued
- Double taxation of profits (and dividends)