Business Entity Types

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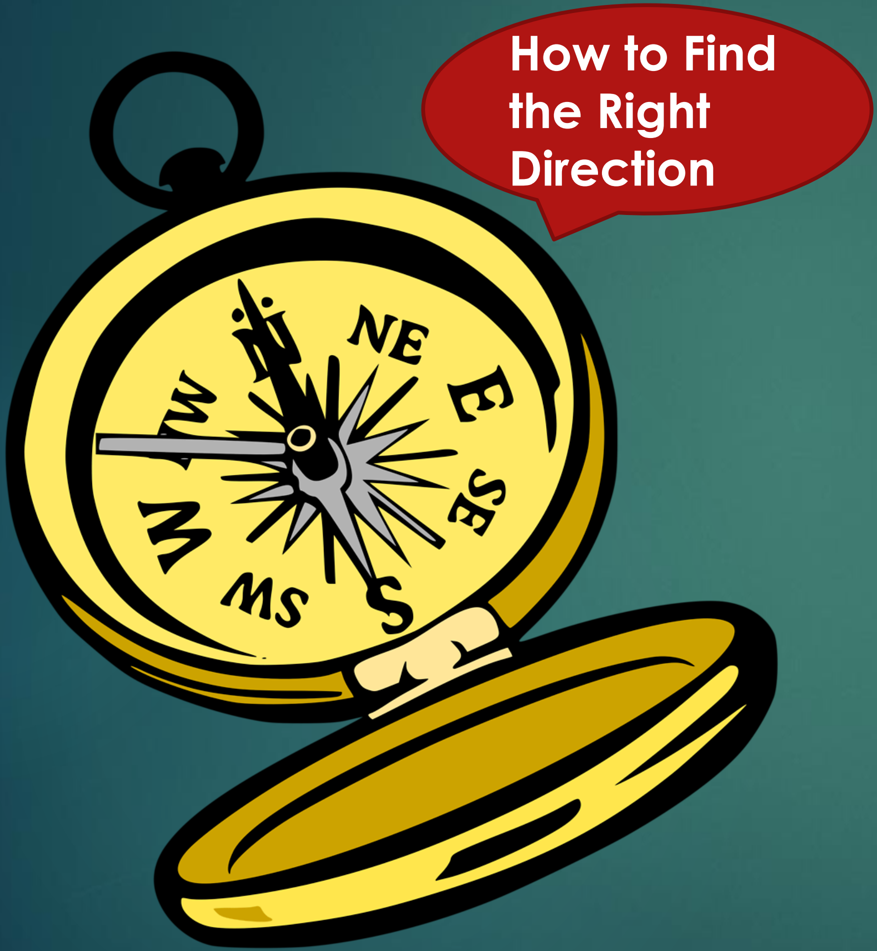
Type of Company



- To get the most out of your small business, choose the right structure. Selecting the right type of company or corporation for your new business helps maximize your chances of financial and operational success.

Common types of business structures

- Common types of business structures and corporations are:
- C corporations,
- Limited liability companies (LLC),
- Partnerships,
- S corporations, and
- Sole proprietorships.

C Corporations

- Independent legal and tax structures separate from their owners.
- Help separate your personal assets from your business debts.
- No limit to the number of shareholders.
- Taxed on corporate profits and shareholder dividends.
- Must hold annual meetings and record meeting minutes.

S Corporations

- Independent legal and tax structures separate from their owners.
- Help separate your personal assets from your business debts.
- Owners report their share of profit and loss in the company on their personal tax returns.
- Limits on number of shareholders, who must be U.S. citizens or residents.
- Must hold annual meetings and record meeting minutes.

Limited Liability Companies (LLCs)

- Independent legal structures separate from their owners.
- Help separate your personal assets from your business debts.
- Taxed similarly to a sole proprietorship (if one owner) or a partnership (if multiple owners).
- No limit to the number of owners.
- Not required to hold annual meetings or record minutes.
- Governed by operating agreements.

Partnerships

- Partners remain personally liable for lawsuits filed against the business.
- Usually no state filing required to form a partnership.
- Easy to form and operate.
- Owners report their share of profit and loss in the company on their personal tax returns.

Sole Proprietorships

- Owner remains personally liable for lawsuits filed against the business.
- No state filing required to form a sole proprietorship.
- Easy to form and operate.
- Owner reports business profit and loss on their personal tax return.

differences between a C corporation and an S corporation?

- C corporations are subject to double taxation; that is, one tax at the corporate level on the corporation's net income, and another tax to the shareholders when the profits are distributed.
- S corporations have only one level of taxation. All of their income is allocated to the shareholders.
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differences between a C corporation and an S corporation?

- However, C corporations have greater tax planning flexibility and can shield shareholders from direct tax liability. In addition, S corporations are subject to limitations, such as the number and type of shareholders they can have

LLC vs. corporation: What's the real story?

- LLC vs. corporation: Other key differences
- Business losses.
- Self-employment taxes.
- Ownership restrictions.
- Dividends and venture capitalists.
- Earnings.

Business losses

- The "S corporation advantage," allows business owners to use business losses — like those incurred during the startup phase — on their personal tax returns as deductions.

Self-employment taxes

- An S corp can provide savings on self-employment or Social Security/Medicare taxes, and it allows owners to offset non-business income with losses from the business — unlike a C corp which is a completely separate tax entity.

Ownership restrictions

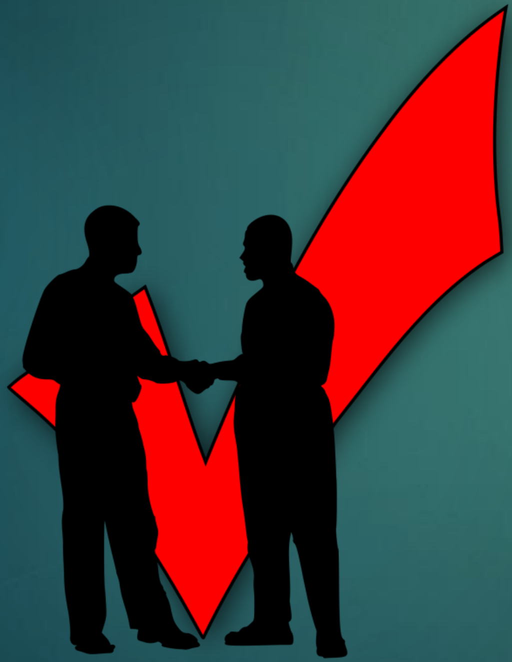
- Neither the LLC nor the C corporation have restrictions on the number of owners the business can have or who can be an owner. S corporations, however, have a number of restrictions. S corporations can have no more than 100 owners, and owners cannot be "non-resident aliens." Additionally, S corporations can not be owned by C corporations, LLCs, other S corporations or non-qualified trusts.

Dividends and venture capitalists

- C corps are often the preferred incorporation choice of developing businesses. Owners can hold different types of stock interests (including preferred and common stock), which allow for different levels of dividends. This is one reason why venture capitalists choose C corporations when they offer funding to a business. Investors are attracted to the prospect of dividends (often higher dividends) if the corporation makes a profit.

Earnings

- C corps can retain and accumulate earnings (within reasonable limits) from year to year.



Making your choice

- Need more tools to decide between an LLC vs. corporation? Of course, for questions specific to your particular situation, it is best to seek the advice of an attorney or accountant.