

The Business Owner's Playbook

Structuring Your Company

Whether you're just starting out, expanding/ changing your business or looking to sell, it's important that your understanding of business structures is sound.



You're Not Locked Into One Business Entity

Once the company's operations are well under way, growth strategies might be better served by a different business structure. As a sole proprietor, you might want to take on a partner to ease the workload or reward a key employee with a stake in the company. Or your company might enjoy greater growth than you envisioned and you might opt to incorporate and issue stock. Be aware that some changes are more difficult than others, but they can be accomplished with the help of **lawyers, accountants** or other professionals.

Guide to Structuring Your Company

Structure	Key Elements
<p>Sole Proprietorship An individual or married couple.</p>	<ul style="list-style-type: none"> • Set-up costs are minimal; there's no complex documentation to go through and no state fees. • Business income is taxed as personal income and is subject to self-employment tax. • Insurance can mitigate the liability to some extent.
<p>General Partnership Has two or more owners (who aren't a married couple).</p>	<ul style="list-style-type: none"> • Set-up costs are minimal with no state fees or documentation. • Experts recommend a written agreement spelling out the partners' responsibilities, how decisions will be made, how money will be spent, how profits will be split and how these terms will be adjusted if one partner is unable to meet his or her responsibilities; how new partners will be added; and how the partnership will end. • Business proceeds are taxed as the partners' personal income.
<p>Limited Partnership Similar to a general partnership, but has two classes of partner: limited and general.</p>	<ul style="list-style-type: none"> • The general partner(s) bears the remainder of the liability and is responsible for day-to-day operations. • The limited partners' liability is based on the percentage of their investment. • Besides the partnership agreement, many states require the partners to file a Certificate of Limited Partnership, as well.
<p>Corporation A corporation is a legal entity, with a charter granted by the state in which it is headquartered. It can sell shares of stock to raise money; shareholders become part-owners based on the size of their investments.</p> <p>S Corporation is intended for businesses that don't call for massive amounts of capital; they are legally allowed to have up to 100 shareholders (up from 75 beginning with tax year 2004) and to issue just one class of stock. Income earned by the corporation is taxed as shareholders' personal income.</p> <p>C Corporation status allows for an unlimited pool of shareholders. Stock can be issued in different classes, with different rights for shareholders. The corporation itself must pay taxes; business proceeds are taxed again when paid to shareholders as dividends.</p>	<ul style="list-style-type: none"> • The corporation, not shareholders, is liable for its obligations. • Incorporation requires start-up fees and complex documentation. • Corporate entities are monitored by various governmental agencies and must comply with a variety of rules.
<p>Limited Liability Company A hybrid entity that shields owners' personal assets from business liability, but allows the returns they earn to be taxed once, as personal income.</p>	<ul style="list-style-type: none"> • The law allows for an unlimited number of owners, called members, to invest in an LLC. • The relationships between an LLC's members are documented in its Operating Agreement.