

### How does the corporate management structure work?

In order to understand the corporate structure, you must first understand the key players and their role in the corporation.

Corporate Players	Role in the corporation
Shareholders	Shareholders are the owners of the corporation.
Directors	The shareholders will elect directors; the directors' general duties are to create corporate policies and manage corporate affairs. The directors' duties include hiring officers, reviewing and approving budgets, and dealing with corporate governance matters.
Officers	The officers are the President, Vice-President, Treasurer, and Secretary. These individuals are in charge of the day-to-day business activities.

In a corporation, the shareholders will elect the directors (*the policy makers/managers of corporate affairs*). The directors will then hire officers to run the day-to-day operations. In most small businesses, the shareholders, directors, and officers are usually the same people.

### 3. Who can form a corporation?

Generally, there are no ownership restrictions for a C-corporation. However, if you are forming a S-corporation, there are some ownership restrictions that you must comply with.

### 4. Which corporate tax structure is better, a C-corporation or a S-corporation?

Below is a brief overview of the common reasons why businesses choose one tax structure over the other:

- **S-corporation:** Most small businesses tend to choose the S-corporation because of its pass through taxation and the ability to avoid paying self-employment taxes on the pass through profits. However, one drawback of a S-corporation is that you must distribute all profits to the owners. You do not have the ability to retain the profits within the company. Additionally, there are ownership restrictions in order to be taxed as a S-Corporation.

**C-corporation:** Businesses that want to retain the profits within the company in order to grow the business would typically form a C-corporation instead (*can later be converted to a S-corporation by a simple IRS filing*). When taxed as a C-corporation, the corporation's profits will be taxed at the corporate level as business income and any profits distributed to the owners will be taxed as income to the owner thus causing double taxation. However, a C-corporation does not have to distribute the profits to the owner and may choose to only distribute a portion of the profits to its owners and retain the difference (*i.e. ABC Company profits \$100,000 this year and distributes \$30,000 in dividends to owners and retains the \$70,000 for the company's use*). Only profits that are distributed to the owners will be taxed twice (taxed at corporate and individual level). The profits that are left as retained earnings will only be taxed once at the corporate level

## 5. What are the differences between a corporation, LLC, sole-proprietorship, and partnership?

Below is a chart to help you compare the differences between the most common business structures:

	<b>Sole Proprietorship</b>	<b>Partnership</b>	<b>LLC</b>	<b>S-corporation</b>	<b>C-corporation</b>
<b>Ownership Requirement</b>	1 owner.	2 or more owners.	1 or more owners.	Between 1 to 100 owners.	1 or more owners.
<b>Liability Protection</b>	No, the owner is personally liable.	No, the partners are personally liable.	Yes, generally the owners are protected from personal liability.	Yes, generally the owners are protected from personal liability.	Yes, generally the owners are protected from personal liability.
<b>Perpetual Existence</b>	No, this structure ends when the owner dies or withdraws.	No, this structure ends when the owner dies or withdraws.	Maybe, a LLC's life will depend on the state of formation.	Yes, a corporation continues to exist after an owner dies or withdraws.	Yes, a corporation continues to exist after an owner dies or withdraws.
<b>Taxation</b>	Profits are only taxed at the individual level, also known as "pass through taxation."	Profits are only taxed at the individual level, also known as "pass through taxation."	Flexible tax structure ( <i>LLCs can choose to be taxed as a sole proprietorship, partnership, S-corp, or C-corp.</i> )	Profits are only taxed at the individual level, also known as "pass through taxation."	Profits are taxed at the corporate level and any profits distributed to the owners will be taxed again at the individual level, also known as "double taxation."
<b>Self Employment Tax</b>	Yes, profits are typically subject to SE Tax.	Yes, profits are typically subject to SE Tax.	Maybe, it will depend on the tax structure selected.	No, profits are typically not subject to SE Tax.	No, profits are typically not subject to SE Tax.
<b>Passive Investment Income</b>	Yes, this structure can be used for passive investment income (i.e. rental income, royalties, etc.).	Yes, this structure can be used for passive investment income (i.e. rental income, royalties, etc.).	Yes, this structure can be used for passive investment income. However, there is a 25% income rule if you elect to be taxed as a S-Corporation.	Yes, this structure can be used for passive investment income. However, there is a 25% income rule if you elect to be taxed as a S-Corporation.	Yes, this structure can be used for passive investment income (i.e. rental income, royalties, etc.).
<b>Professional Services</b>	Yes, this structure can be used	Yes, this structure can be used	Maybe, it will depend on the state where	Maybe, it will depend on the state where	Yes, this structure can be used

	professional services (i.e. doctors, lawyers, etc.)	professional services (i.e. doctors, lawyers, etc.)	business is being conducted.	business is being conducted.	professional services. However, there is a special federal PSC 35% flat tax.
<b>Formalities</b>	Few formalities. Business must comply with DBA laws.	Few formalities. Business must comply with DBA laws.	Must comply with state reporting requirements, if any.	Corporations must hold annual meeting and comply with state reporting requirements.	Corporations must hold annual meeting and comply with state reporting requirements.
<b>Disadvantages</b>	No liability protection and must also pay SE tax on income.	No liability protection and must also pay SE tax on income.	Higher start-up cost, more formalities, and higher maintenance cost.	Higher start-up cost, more formalities, and higher maintenance cost.	Higher start-up cost, more formalities, higher maintenance cost, and double-taxation.
<b>Advantages</b>	Few formalities and low start-up costs.	Few formalities and low start-up costs.	Personal liability protection, flexible tax structure, and no annual meeting requirement.	Personal liability protection and possible SE tax savings.	Personal liability protection and the ability to retain earnings and to split income.
<b>Usage</b>	For businesses that have low liabilities or new start-ups with low capital.	For businesses that have low liabilities or new start-ups with low capital.	For businesses that want personal liability protection and a flexible tax structure.	For businesses that want personal liability protection and possible SE tax savings.	For businesses that want personal liability protection and prefer to keep some or all of the profits within the business.

**7. Do I need an attorney to form a corporation?**

No. You can always prepare and file your own formation documents. Our Firm can help you incorporate and save money on attorney fees. However, if you need legal advice, you should consult an attorney.