**Incorporation of**

**Your New Business - Guide**

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There are lots of questions and challenges waiting for new business owners when come to starting, running, and growing of their businesses. This guide here explains the advantages and disadvantages of incorporation choices, alternatives, process of incorporation, and additional requirements after you have successfully set up your new business. Each state also has its unique rules about how businesses should report to the state government regarding annual reports and state tax returns.

At **Chang & Deka**, we provide incorporation, consultation, and annual filings for your business at affordable rates. We provide competitive, affordable, and reliable services to all our customers.

The following sections will illustrate different types of businesses and would help you decide which one is most suitable for your need.

**Sole Proprietorship**

Sole Proprietorship is the simplest and easiest form. However, it is not treated as a legal or separate entity by itself. There is no requirement to file annual report to the government for a Sole Proprietorship business. It can start anytime as long as the owner is willing to create a new business.

It is because Sole Proprietorship is not a separate entity, there are no separation between the owner and the busines itself. The owner of the business is the liable person before law for the Sole Proprietorship. He or she has sole control and has all the burden of liabilities for the Sole Proprietorship business.

**Advantages of Sole Proprietorship**

1. It is easy to set up without complicated state requirements. Filing expense would be $0 for Sole Proprietorship business.
2. No paperwork requirement to state.
3. No separate tax return requirements. All income and expenses can report under owner’s individual tax return Schedule C. Therefore, avoiding double taxation on federal and state side.
4. No unemployment tax requirement for the owner themselves. Only required for employees hired.
5. Easy and simple structure that enables quick response or decisions without complicated corporate board of director approves.

**Disadvantages of Sole Proprietorship**

1. There are unlimited personal liabilities for the Sole Proprietorship owner. The owner’s personal assets are at lien if business is in debt to pay for liabilities due.
2. It can be harder to obtain fund through banks as a Sole Proprietorship than as a corporation.
3. Discontinuation of Sole Proprietorship upon owner’s death or incapability to continue work.
4. It Is limited to one owner for all Sole Proprietorship businesses.

**General Partnership**

A General Partnership is a form of business with two or more owners. A formally written partnership agreement is required for rights and responsibilities for each partner.

Just like the Sole Proprietorships, General Partnerships are tied to the owners and are not treated as separate entities. The owners’ personal assets are liable for the collections of liabilities in situation where business failed and have debt owed.

**Advantages of General Partnership**

1. Although more complicated than Sole Proprietorships, General Partnerships are still easy to set up inexpensively.
2. Most states do not require minimum tax despite annual report requirements are mandatory.
3. Partnership agreements can be negotiated for management responsibilities, capital responsibilities, and fund distributions. Making it flexible for owners to arrange.

**Disadvantages of General Partnership**

1. Unlimited liabilities for owners. In situation where debt is uncollectible, owners’ personal assets are at risk of collections for unpaid debt.
2. One partner’s actions can affect other partners. Every owner in the partnership bears the risks of actions by all owners.
3. It can be difficult to obtain business loan from bank as a General Partnership.
4. Disputes are one of the most common issues between partners that often led to lawsuits and even discontinuation of the General Partnership.

 **Limited Partnership**

A limited partnership is a partnership made with two classes of partners: General Partner and Limited Partner. General partners manage the activities and operations of the limited partnership and also assumes personal liable for debts. Limited partners enjoy a limited liability protection but do not participate in management. For limited partners, they are liable only for the portion of their contributions in the partnerships. Their cars, their properties and jewelries are all safe. At least one general partner and at least one limited partner must exist for the limited partnership to exist. The limited partners would enjoy limited liabilities protection of the corporations but do not have burden of double taxation.

An annual report filing requirements are required in most states for the limited partnership to continue operate without involuntary dissolution by the state government.

**Advantages of Limited Partnership**

1. Limited partners avoid double taxation while retaining limited liabilities.
2. General partners have sole control of business decision making.
3. State filing requirements are limited.

**Disadvantages of Limited Partnership**

1. General partner faces unlimited liabilities for the entire partnership.
2. Limited partners are not allowed to participate in business operations.
3. Form 1065 still is required to file despite no minimum tax requirements in federal and most states.
4. Annual reports are required to file and it is additional expense for the partnership.

**Limited Liability Partnership**

A Limited Liability Partnership is in between a partnership and LLC. While personal assets are protected like the limited partners, LLP is allowed for management as the characteristics of the general partner. The downside is that state government will impose restrictions of mandatory insurance requirements and cash reserve to meet liabilities of the LLP. In this sense, the partners will still require putting some extra expense into this business form.

Most LLPs are formed by licensed professionals such as accountants, attorneys, etc. In certain states, they only allow licensed professionals from forming a Limited Liability Partnership.

Although federal tax are waived on business level and most minimum state tax do not exist for LLPs, Limited Liability Partnership do need to file formation document and annual reports are required to file as well.

**Advantages of Limited Liability Partnership**

1. Limited Liability Partnership is considered pass through, therefore, no double taxation in federal level and most states.
2. No personal liability claims if business fail. Limited liabilities for all members.
3. It has fewer paperwork than corporations.

**Disadvantages of Limited Liability Partnership**

1. Cost of extra layers of insurance and cash reserve are additional expenses or liabilities.
2. Annual reports are required to file in most states for LLPs.
3. Many states allow only professionals from forming an LLP.

**C Corporation**

C Corporation is one of the most common form of business. A corporation is a separate entity owned by its shareholders. A C Corp is treated as a separate entity and enjoys limited liability protection for its shareholders (owners).

C Corp must file annual reports and other requirements by the state government and is liable for double taxation. The current tax rate for C Corp is at 21% flat rate for all positive net income earned.

**Advantages of C Corporation**

1. Limited liabilities for shareholders that protect shareholder’s own assets.
2. C Corporation can have unlimited numbers of shareholders.
3. Ownership can be easily sold or transferred.
4. C Corporation has unlimited life despite incorporators’ passing.
5. C Corp has higher potential to apply for busines loans or issue stocks for cash to grow the business.

**Disadvantages of C Corporation**

1. C Corp is exposed to double taxation for its income before distributed to shareholders another level of personal income tax.
2. It is more expensive to operate for its filing requirements.
3. Corporate structure can be complex and decision making can take longer than partnerships or LLCs.

**S Corporation**

An S Corporation is a C Corp that has filed special tax treatment with the IRS for pass through entity taxation. It is formed just like the C Corps initially but is not liable for the 21% double taxation on business level.

After initial formation of articles of incorporation, an additional form 2553 is filed to the IRS to convert C Corp to S Corp.

**Advantages of a S Corp**

1. S Corp shareholders enjoy pass through taxation on business level and do not liable for double taxation for federal and most states.
2. Unlimited life after incorporators’ passing.
3. Easier to fund capital from banks than partnerships.

**Disadvantages of a S Corp**

1. S Corp is subject to maximum of 100 shareholders or risk becoming a C Corp and lose its S-Corp status.
2. It can only has one class of stock.
3. S Corp is still more expensive than LLCs and sole proprietorships for its state level taxation and annual filings.

**Nonprofit Corporation**

A Non-profit Corporation is formed to pursue public concern, charity, or non-commercial interest goals. To form a Non-profit Corporation, Articles of Incorporation is required in addition to filing fees.

To be tax exempt, Non-profit Corporation must file form 1023 with the IRS and other state requirements occasionally. Non-profit Corporation provides limited liability protection for incorporators and officers.

Most Non-profit Corporation are under Section 501(c)(3) code under IRS.

**Advantages for Non-profit Corporation**

1. Non Profits are tax exempt on federal and state levels.
2. Some Non-profit Corporation are eligible for certain federal, state, or private funding grants.
3. Donations to Non-profit Corporation are usually tax exempt.
4. Directors and officers are not liable for Non-profit Corporation’s debts.

**Disadvantages for Non-profit Corporation**

1. Strict filing requirements by both federal and state governments for Non-profit Corporation to keep its tax exempt status.
2. Filing of these continuing regulation filings can be expensive and time consuming.
3. Non-profit Corporation are not profit corporations and there are no owners that can be split profits of “dividends”. All income earned must go back to Non-profit Corporation’s non-profit goals only.

**Limited Liability Company**

A Limited Liability Company or an LLC is a mixture between a corporation and a partnership. While a Limited Liability Company enjoys pass through tax treatments for its members, it is registered as a partnership form.

Articles of Incorporation is required for the formation of a Limited Liability Company. It required to pay only the annual filing requirements but no federal tax and no state taxes in most states.

**Advantages of Limited Liability Company**

1. Its members enjoy pass through taxation.
2. Personal assets are not liable, and members enjoy limited liability protections.
3. Limited Liability Company do not have maximum numbers of members.
4. Paperwork or annual filings are less than corporations.

**Disadvantages of Limited Liability Company**

1. It is more expensive to form than partnerships.
2. Ownership transfers are more difficult than corporations.

**Professional Entities**

Professional Corporations are organized and operated by licensed professionals such as attorneys, accountants, or doctors. The shareholder has pass through liability protection from acts of other shareholders. Each will still remain liable for unlimited liabilities for their own acts.

Many states require insurance policies to be mandatory for Professional Corporations in addition to cash reserve requirements.

**Comparison Table**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | SoleProprietorship | GeneralPartnership | CCorporation | SCorporation | LLC | LP | LLP |
| State filing |  |  | X | X | X | X | X |
| Limitedliabilityprotection |  |  | X | X | X | maybe | X |
| Unlimited Life for Business |  |  | X | X | maybe | X | maybe |
| Flexibilityin management |  |  |  |  | X |  | X |
| Pass-throughincome/loss | X | X |  | X | X | X | X |
| Doubletaxation |  |  | X |  |  |  |  |
| Ease ofraisingcapital |  |  | X | X | maybe |  |  |
| Ownership Transfer Difficulties |  |  | X | X | maybe | maybe | maybe |

**What We Can Help for Incorporation**

1. Select the business structure that fits your needs
2. Select the correct accounting software within your budget.
3. Establish adequate billing and collection procedures.
4. Apply federal identification number or EIN.
5. Provide registered agents choices at your choice.
6. Set up payroll system once you have your first employee.
7. Comply with newest taxation and accounting law.
8. Identify the insurance requirements for your business.
9. Help filing annual reports to keep your business ongoing continuously.

**Let us Help You Incorporate Your New Business**

At Chang & Deka, we offer affordable rates for our clients. We provide affordable, reliable, and professional services to al our clients.

Simply complete the “04 (Fillable) corporation setting up questionnaire” template and email to us, we will help you incorporate your business.

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