

Business Structuring 101

When it comes to legalizing a business, most people don't know which business structure to choose for their company. This sheet will explain the different types of legal structures, and it will assist in helping you choose the best one for your business.

SOLE PROPRIETORSHIP: An unincorporated business that is owned by one person who reports business profits on his or her individual tax return. A sole proprietorship is the simplest business structure and it is easy to start.

PARTNERSHIP: An unincorporated business owned by multiple owners, either people or other businesses. Profits are divided among its owners and reported on their tax returns. Common partnership types include general partnerships, limited partnerships, limited liability partnerships (LLPs) and limited liability limited partnerships (LLLPs).

LIMITED LIABILITY COMPANY (LLC): An LLC is a hybrid business structure that limits the personal liability of its owners — called members — like a corporation, but allows the profits to be taxed on either a member level or the corporate level.

S-CORPORATION: An S-corporation has one class of stock and no more than 100 shareholders, none of whom can be another for-profit business or a person without a green card who doesn't meet IRS residency requirements. Profits are taxed on shareholders' tax returns, and shareholders have limited liability.

C-CORPORATION: A corporation whose profit is taxed once on the business level and a second time on an individual basis when earnings are distributed to shareholders, who have limited liability for the business's debts. C-corporations can have multiple classes of stock and an unlimited number of shareholders.

It is possible to choose one business structure and then change it down the line if circumstances warrant the change. There is a process for it, but you want to try your best to get it right on the first try to avoid the extra costs and time required to make changes.

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