

Alternative Business Structures

1. Sole Proprietorship
2. Limited Liability Company (LLC)
3. Corporation (C Corp)

Sole Proprietorship

If you do nothing, you are by default a Sole Proprietorship.

- ◆ You and the business are the same entity.
- ◆ You are responsible for all obligations, debts, and fines incurred by the business.
- ◆ Business income is reported on your personal income tax returns.
- ◆ You do not have to file or pay a separate tax on the business.

Limited Liability Company (LLC)

- ◆ Allows for multiple owners, but with limited personal financial.
- ◆ Not subject to the requirements to elect a board and hold regular meetings with minutes, as required under the Corporation structure.

Corporation

- ◆ A traditional corporation; also called a “C Corp”.
- ◆ Managed by a Board of Directors that is elected by the shareholders.
- ◆ The shareholders and Board must meet at least annually and keep minutes of important decisions.
- ◆ Profits are taxed by the IRS and the states.
- ◆ Dividends (which can only be distributed from after-tax profits) are reported on the individual tax returns of the shareholders. Owners are therefore “double-taxed” on income from the company.

LLC vs. C-Corp Fundraising Implications

Investors will want you to be a C-Corp because it is much easier to distribute shares of equity. (Unlike Corporations, LLCs do not have stockholders.)

Also, venture capital funds are not structured to be *flow-through* tax entities. For an LLC profits and losses flow through to the VC fund, creating a tax paperwork burden for the fund and its investors. To prevent this problem, VCs invest only in C-corps.

However, you can start as an LLC, then convert to a C Corp when you are ready for professional equity financing.

Steps to Setting up An LLC

- ◆ Confirm company name is not already registered in your state and is available as a trademark and URL.
- ◆ Arrive at an agreement among the founders as to what percentage each of you will own. (You can form an LLC with a sole member.)
- ◆ Prepare an “LLC Operating Agreement” Template:
<http://www.legalcontract.com/contracts/llc-operating-agreement>
- ◆ File Articles of Organization with Secretary of State
- ◆ Register company with your Town Clerk
- ◆ Obtain a Sales Tax License (to collect sales taxes)

