

# LEGEND LENDING

## THE 5 BUSINESS STRUCTURES



SOLE PROPRIETORSHIP

**DEFINITION:** Unincorporated business with one owner. Simplest, but riskiest, type of business.

**LIABILITY:** Owner has unlimited liability for any debts incurred by the business.

**TAXATION:** Owner is taxed at the individual tax rate.

**TAX FORMS CAN INCLUDE:** Form 1040, Individual Tax Return (Schedule C) & 1099'S.



PARTNERSHIP

**DEFINITION:** Business arrangement between 2 or more people.

**LIABILITY:** Operates according to a partnership agreement. General partners have unlimited liability.

**TAXATION:** Borrowers share of income taxes at the individual's tax rate. Earnings will be reported regardless of whether income was distributed.

**CONSIDERATIONS:** Income only considered if distributed OR if a business has adequate liquidity. Partners are not employees but may receive guaranteed payments.

**TAX FORMS CAN INCLUDE:** Form 1065 (Partnership Tax Return) & K1's



S-CORPORATION

**DEFINITION:** A legal entity that has a limited number of stockholders.

**LIABILITY:** Stockholders are not personally liable for the debts of the corporation.

**TAXATION:** The borrower's share of the income will be taxed at the individual tax rate. Earnings will be reported regardless of whether income was distributed.

**CONSIDERATIONS:** Income can only be considered if it was distributed OR if the business has adequate liquidity. Stockholders are considered employees of the business and can receive W2 wages.

**TAX FORMS CAN INCLUDE:** Form 1120-S (SCorp Tax Return) & K1's



CORPORATION

**DEFINITION:** A legal entity that exists separate from its owners, who are shareholders.

**LIABILITY:** Owners are not personally liable for the debts of the corporation. Losses are limited to amount of investment in the company stock.

**TAXATION:** The business pays the taxes for the business. The owner is taxed at their individual tax rate for their earnings.

**CONSIDERATIONS:** Borrower must be 100% owner to utilize business' cash flow for qualifying income.

**TAX FORMS CAN INCLUDE:** Form 1120 (Corporate Tax Return), 1099-Div and W-2, Form 1125



LLC

**DEFINITION:** A hybrid business structure designed to offer members/owners tax efficiencies of a partnership and the limited liability of a corporation.

**LIABILITY:** LLC operating agreement outlines specific division of power among members/owners. Generally, they have limited liability.

**TAXATION:** Owner is taxed at the individual tax rate.

**TAX FORMS CAN INCLUDE:** Based on how business was formed. Doesn't have its own IRS forms - borrowers other entities' forms.