**Selecting a Business Type**

There are options to consider when selecting your business type. Each has pros and cons, their own income tax rules, and other business duties like recordkeeping. Below is a simple list of the most common business types. The list is not exhaustive and nor are their pros and cons.

**Sole Owner** - used when there is only 1 owner; the business is likely named as a “Doing Business As” or an some other Tradename

* Pros
  + Is the simplest business form, no formal documentation or filings needed
  + Does not require a separate bank account from your personal bank account
  + Taxpayer files an individual Form 1040 with a Schedule C for their business transactions
  + Tax returns are less expensive and easier to prepare
* Cons
  + Owner pays self-employment taxes on the profits, this can get very expensive when profits are over $20,000

**Partnership** – used when there are more than 2 owners, LLCs are often partnerships

* Pros
  + Each owner can operate independently from each other including filing their taxes
* Cons
  + Requires a Partnership Agreement between the participants
    - That agreement is complex and spells out how profits are divided, how the business is operated, how much money owners invest, and more
  + Tax returns are complex and fairly expensive

**Corporation** – there are two types → C Corporation and S Corporation

* **C Corporations**
  + Are typically large companies owned by many shareholders though small companies can select this type
  + Owners are shareholders
  + C Corporations file a Form 1120, taxes are paid on all profits, losses are carried forward
  + Owners of C Corporations receive a W2 to file their individual Form 1040
  + Have to register with the state initially and annually and pay associated
  + Can run into “double taxation” issues
* **S Corporations**
  + Offer liability protection so that if the business is sued their personal assets are protected
  + Are typically husband/wife or family businesses
  + Owners are shareholders
  + Have to make a formal election with the IRS
  + They do NOT pay taxes on their profits and do NOT carry forward any losses
  + Profits and losses “flow through” to the taxpayer on a Schedule K1 which is included in their individual Form 1040
  + Income taxes are assessed on ALL company profits; owner distributions are typically NOT taxable depending on the shareholder’s “Basis” in their stock
  + They do NOT pay self-employment taxes, which is a BIG savings when the owners withdraw their profits

**Limited Liability Company**

* They offer limited liability so that if they are sued their personal assets are have some (but not complete) protection
* LLCs register with the state initially and annually and pay associated fees
* Owners are called Members – can be Single Member LLC (SMLLC) or Multiple Member LLC (MMLLC)
* They do NOT pay taxes
* Income taxes “flow through” to the owners in one of the following ways
  + Sole Owner – SMLLC will file federal taxes just like a Sole Owner above
  + Partnership – MMLLC will file a partnership tax return Form 1065 and receive a Schedule K1 which included with their individual Form 1040
  + S Corporation – SMLLC or MMLLC can elect S Corporation status, the LLC files their taxes on a Form 1120S and provides the owner with a Schedule K1 to be included in their individual Form 1040