

## **Business Structures**

When starting a business, you will need to determine what business structure is best for your business. The structure you choose may depend on the legal liability issues and tax consequences. Below is a short list of different structures. It is advised that you contact your attorney before finalizing your business structure. There may be rules regarding business structuring that are specific to your state.

### **Sole Proprietorship**

- One-person business
- Do not have to file any special papers to set up
- Legally, the owner is tied to the business
- Owner of business must report business income on his/her personal tax returns
- Owner is personally liable
- Lower start-up costs, but practice may quickly outgrow structure
- If there are employees, you must obtain an Employee Identification Number from the IRS

### **Partnership**

- Owned by two or more people
- Do not have to file any special papers to set up
- Owners pay taxes on their shares of the business income on their personal tax returns liable for the entire amount of any business debts and claims
- Makes most sense in a business where personal liability isn't a major concern

### **Limited Partnership**

- Can be costly and complicated to run
- Created by one person or company ("general partner") who will solicit investments from others (the "limited partners")
- General partner controls day-to-day operations and is personally liable for business debts (unless the general partner is a corporation or an LLC).
- Limited partners have minimal control over daily business decisions or operations
- Limited partners are not personally liable for business debts or claims

### **General Corporations**

- Limit the owners' personal liability for business debts and court judgments against the business
- A corporation is an independent legal and tax entity, separate from the people who own, control and manage it

- Owners of corporations do not use their personal tax returns to pay tax on corporate profits - the corporation pays these taxes
- Good set-up for business owners who either 1) run the risk of being sued by customers or of piling up a lot of business debts, or 2) have substantial personal assets they want to protect from business creditors

### **Professional Corporations (PC)**

- Must be organized for the sole purpose of providing a professional service for which each shareholder is licensed
- Limited personal liability for shareholders
- Must be registered with your state's Secretary of State or equivalent
- Consult your Secretary of State's office to find out which occupations apply

### **Limited Liability Corporations (LLC)**

- Provides the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership
- Viewed by the IRS as either a partnership or a corporation
- Owners are members and the duration of the LLC is usually determined when the organization papers are filed
- Offers liability protection for its owners

### **Sub Chapter S Corporations**

- Similar to LLCs in that they provide owners with limited liability protection while offering the tax structure of a partnership
- Have been largely replaced by LLCs
- Owners pay income taxes as if they were a sole proprietor or partner
- All profits pass through to the owners, who report them on their personal tax returns
- An S corporation with more than one owner must file an informational tax return like a partnership or LLC, to report each shareholder's portion of the corporate income.

More information can be found at:

- <http://www.nolo.com>
- <http://www.business.gov>
- Group Ownership and Autonomous Practice - [APTA website](#)
- [Business legal structures](#)