

Plan for Success: Creating, or Re-Creating, Your Business Structure

Selecting your business structure is one of the most important decisions a business owner makes, as it has wide implications in regards to financial success. Without understanding the legal, accounting, and tax effects of your chosen structure, you may unknowingly create roadblocks which interfere with successfully achieving your desired results. Your chosen business structure affects safety of personal assets, taxation, and continuation of your business.

It is important to choose a structure that works for you and your family! Why? Because of the effect of unlimited personal liability for company debts. Listed below are some of the more common types of legal business structures along with a modest explanation of each.

Sole Proprietorship: This allows management flexibility but provides no protection from personal liability for company debts.

General Partnership: This is similar to the sole proprietor in that it allows for management flexibility, also adding pass-through taxation advantages, but provides no protection from personal liability for company debts.

Limited Partnership (LP): This consists of limited partners who contribute capital, allows pass-through taxation advantages, and limits liability to the extent of the investment. However partners can be held personally liable for the business, either wholly or to the extent of their contributions.

Limited Liability Partnerships (LLP): This is used for professionals (accounting, law, etc.), allows pass-through taxation advantages, and partners are not liable for malpractice of any other partner.

General Corporation (C-Corp): This allows an unlimited number of shareholders and limits the stockholders' liability to the extent of their investment. However it creates a double-taxation effect as the corporation pays taxes, then dividends are distributed to stockholders and they pay taxes on those dividends.

Close Corporation: This is similar to the C-Corp but limits the number of shareholders and may require that new stock first be offered to current stockholders before offering to outsiders. It does allow unlimited liability to the extent of the investment.

Subchapter S Corporation (S-Corp): This is a general corporation that has elected a special tax status of a Subchapter S Corporation (S-Corp) with the IRS, and allows the pass-through taxation advantages of a sole proprietorship, or partnership, in proportion to ownership in the company.

Professional Corporation (PC): This is intended for professionals that require professional licensure, such as engineers, attorneys, CPAs, or physicians, and requires all members to belong to the same profession.

Limited Liability Company (LLC): This combines the corporate advantage of limited personal liability along with the pass-through taxation advantage of a partnership.

Professional Limited Liability Company (PLLC): This is similar to the Professional Corporation in that it is for licensed professionals and all must belong to the same profession.

It is extremely important to note that not all forms of business structure are legal in all states and some may have different requirements from state to state. It is advisable to seek legal council and accounting expertise before making the decision as to the best fit for your business. Also it is worthwhile to review your current structure to see if it is still your best choice. Remember, in your "Plan for Success", the correct business structure will benefit you personally, financially, and provide for continuation of your business.