

FORMS OF BUSINESS OWNERSHIP

THERE ARE FOUR MAIN BUSINESS STRUCTURES

- Sole Proprietorship
- Partnership
- Corporation
- Limited Liability Company

Which business structure is right for your business? One of the first executive decisions you'll make for your new business is choosing the type of legal organization that's best for you. The choice you make is important because it will determine what your business can and cannot do, what will happen if someone sues you, how both you and your business are taxed, and more.

SOLE PROPRIETORSHIP

**You're automatically considered to be a sole proprietorship if you do business activities but don't register as any other kind of business*

- Owned by one person and easy to form and operate
- Taxes - personal taxes
- Your business assets and liabilities are not separate from your personal assets and liabilities
- Is more affordable since no legal documents need to be filed in most cases. All you have to do is get a business license and start operations.
- If the business makes a profit, it will increase the owner's income by that amount and the owner is responsible for any taxes due.
- Sole proprietorships can be a good choice for low-risk businesses and owners who want to test their business idea before forming a more formal business.

LIMITED LIABILITY COMPANY (LLC)

- Allows you to take advantage of the benefits of both the corporation and partnership business structures.
- Owners are not personally liable in most instances
- Profits and losses can get passed through to your personal income without facing corporate taxes
- Members of an LLC are considered self-employed and must pay self-employment tax contributions towards Medicare and Social Security
- Taxes - Self-employment tax, Personal tax, or corporate tax
- LLCs can be a good choice for medium- or higher-risk businesses, owners with significant personal assets they want to be protected, and owners who want to pay a lower tax rate than they would with a corporation.

PARTNERSHIP

**Partnerships are the simplest structure for two or more people to own a business together. There are two common kinds of partnerships: limited partnerships (LP) and limited liability partnerships (LLP).*

- Unlimited personal liability unless structured as a limited partnership
- Has two or more owners. The details of the arrangement between the partners are outlined in a written document called a partnership agreement.
- Taxes include Self-employment tax (except for limited partners) and personal tax
- Is a pass-through entity and does not pay its own income tax but files an informational tax return with the IRS (Form 1065). The pro-rata share of its income and expenses are shown on each partner's personal return, and any taxes due are paid by the partners.
- Partnerships can be a good choice for businesses with multiple owners, professional groups (like attorneys), and groups who want to test their business idea before forming a more formal business.

CORPORATIONS

C CORP

- Taxes - Corporate taxes
- Is brought to life as a regular C corporation, by filing a form with a state, known as articles of incorporation.
- Must have at least one stockholder
- Protects the owners by absorbing the liability if something goes wrong. When debt is incurred in the company name, owners are not personally liable and their assets cannot be taken to settle company obligations. (offers the strongest protection to its owners from personal liability)
- Allows owners to hire themselves as employees and then participate in company-funded employee plans like medical insurance.
- The cost to form a corporation is higher than other structures and requires more extensive record-keeping, operational processes, and reporting
- Corporations pay income tax on their profits. In some cases, corporate profits are taxed twice — first, when the company makes a profit, and again when dividends are paid to shareholders on their personal tax returns.
- Can raise money through the sale of stocks
- Corporations can be a good choice for medium- or higher-risk businesses, businesses that need to raise money and businesses that plan to "go public" or eventually be sold.

- One or more people, but no more than 100, and all must be U.S. citizens
- Is the same as any other business corporation with one important difference- the IRS allows it to be taxed like a partnership, a pass-through entity.
- Being an S corporation is a tax matter only, elected by filing IRS form 2553.
- Allow profits, and some losses, to be passed through directly to owners' personal income without ever being subject to corporate tax rates. (Owners are not personally liable)
- Taxes - personal taxes
- Have to follow strict filing and operational processes of a C corp
- S corps can be a good choice for businesses that would otherwise be a C corp, but meet the criteria to file as an S corp.

NONPROFIT CORPORATION

- One or more people
- Owners are not personally liable
- Organized to do charity, education, religious, literary, or scientific work
- Can receive tax-exempt status, meaning they don't pay state or federal taxes income taxes on any profits it makes
- Required to follow rules regarding the use of any profits earned (corporate profits cannot be distributed)

The graphic below provides an overview of these main considerations. Need more help?
Reach out to an advisor today at nevadasbdc.org!

Business structure	Ownership	Liability	Taxes
Sole proprietorship	One person	Unlimited personal liability	Personal tax only
Partnerships	Two or more people	Unlimited personal liability unless structured as a limited partnership	Self-employment tax (except for limited partners) Personal tax
Limited liability company (LLC)	One or more people	Owners are not personally liable	Self-employment tax Personal tax or corporate tax
Corporation - C corp	One or more people	Owners are not personally liable	Corporate tax
Corporation - S corp	One or more people, but no more than 100, and all must be U.S. citizens	Owners are not personally liable	Personal tax
Corporation - B corp	One or more people	Owners are not personally liable	Corporate tax
Corporation - Nonprofit	One or more people	Owners are not personally liable	Tax-exempt, but corporate profits can't be distributed