



## Business Structure

The most common forms of businesses are the sole proprietorship, partnership, corporation, S corporations and Limited liability Company (LLC). Making the right choice for your business will depend upon the type of business, how you want the business to be run, how many owners the business will have and the financial situation of the business. When choosing your business structure, factor in the personal liabilities that come with each business structure, the expenses and procedures associated with establishing and continuing to run the various business structures, income tax and investment needs.

### What is the personal liability?

- Both corporations and LLCs allow business owners a type of “limited liability,” where anyone seeking claims against the business will have a very hard time placing personal liability on you as the owner. Conversely, in a general partnership, every partner can be held personally liable for any claims against the business. As a sole proprietor, you are personally responsible for all liabilities incurred by your business.

### What can be expected regarding expenses and procedures?

- If all of the business structures were placed on a scale that depicted how difficult and expensive it is to establish and maintain them, partnerships and sole proprietorships would be near the bottom. LLCs and corporations, on the other hand, are almost always more difficult and expensive to establish and maintain.

### What is an income tax implication?

- The owners of a corporation do not pay taxes on profits that the corporation keeps, and the corporation pays taxes at a lower rate than do some individuals. A corporation and its owners may pay less in taxes than if the owner organized his/her business as any of the other business structures. Sole proprietorships', partnerships' and LLCs' profits and losses pass through to the business owners on their personal income taxes. Owners of these three business structures can expect to have complex income tax returns.

### How are investment needs affected?

- Structuring a business as a corporation allows a business to sell shares of ownership in the business through stock offerings. The other three business structures do not allow the selling of part of the business through the sale of stocks. Because of this investment scheme, it may allow owners of a corporation to attract investors and retain employees more easily by offering stock.

*Consult a business structure attorney or a tax attorney to determine the best possible structure for you.*

### Learn more

[Choosing Your Business Structure \(SBA\)](#)

[Business Structure \(IRS\)](#)

[Learn About Your State and Local Tax Obligations \(SBA\)](#)

[Small Business and Self-Employed Tax Center \(IRS\)](#)