

## SPECIAL ARTICLE

# SUCCESSFULLY STRUCTURING YOUR BUSINESS



**What form should my business take?** This is often the first question aspiring entrepreneurs ask themselves. Should I form a corporation? Does a sole proprietorship make sense? Do I need to name my business? How do I register my business's name and what does that mean?

BE SURE TO SEE ACKNOWLEDGMENTS AND DOWNLOAD OPPORTUNITIES BELOW.

While these should not be the first things that you think about when kicking off a business--[business planning](#) should be—it is worthwhile considering some of pros and cons of the various business forms. The business form you finally select can affect your taxes and can serve to protect your personal wealth. Sometimes, the selection can save you time, money, and legal worries, as well.

The objective of this article is to demystify the process for you. We'll discuss some of the business entity basics, refer to what experts have to say about each form, and present you with access to two excellent presentations on the subject.

This is only a start, though, and no substitute for consulting one-on-one with experienced experts. It is always wise to seek legal and financial accountant advice—and seek out advice from SCORE®.

## SIMPLEST AND LEAST COSTLY FORMS

There are three basic forms for you to consider first.

The simplest form of business entity is a sole proprietorship (refer to diagram 1 below.) Recommended for many small businesses, a sole proprietorship is your best choice if your legal risks are minor, you don't plan to employ more than a few people, and your tax implications are not significant.

The second choice, the S-Corporation is good for small businesses who expect to encounter some legal risk and more tax challenges (refer to diagram 2 below.)

Limited Liability Partnerships, the standard Corporation or C Corporation, makes sense for the rest. (Limited Liability Corporations and Partnerships will not be discussed here, but are discussed in the PDF presentations accompanying this article.)

## 1 SOLE PROPRIETORSHIP TOP-LEVEL STRUCTURE




## 2 CORPORATION TOP-LEVEL STRUCTURE



If you are just getting started, the Sole Proprietorship and S Corporation are worth considering. They appear to be the lowest cost to manage & maintain. In the case of the S Corporation, it provides a sensible balance of tax and liability advantages for the small business owner.

### 3 Sole Proprietorship pluses and minuses



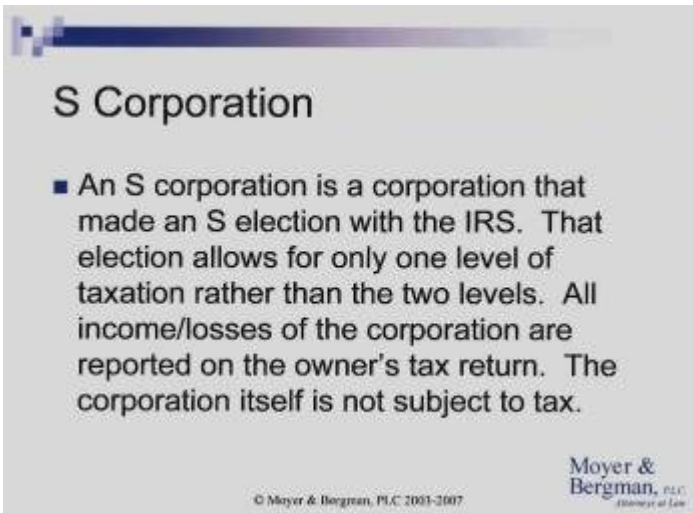
**Advantages/Disadvantages to a Sole Proprietorship**

<u>Advantages</u>	<u>Disadvantages</u>
<ul style="list-style-type: none"><li>■ Simple and inexpensive to establish</li><li>■ Profits are taxed only once at the owner's rate</li><li>■ Losses are deducted from other personal income</li><li>■ No need for additional tax form, just additional schedule to owner's tax return</li></ul>	<ul style="list-style-type: none"><li>■ The owner has unlimited liability for business debts and any judgments against the business</li><li>■ Self-employment taxes</li></ul>

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### 4 S Corporation Defined (Note the tax points.)



**S Corporation**

- An S corporation is a corporation that made an S election with the IRS. That election allows for only one level of taxation rather than the two levels. All income/losses of the corporation are reported on the owner's tax return. The corporation itself is not subject to tax.

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## LARGE BUSINESS CONSIDERATIONS

If you expect to build a large business and have many stockholders, a regular C Corporation might be a better choice (refer to diagram 5 below.) It should be noted that you can change your business form as circumstances warrant. Your business form should be reviewed periodically to ensure it is aligned with your business type and interests.

## WHERE IS ONE TO START; HOW TO DECIDE ?

Home businesses, by default, are sole proprietorships if they involve one person. You need not do anything to assume this form. It is the default form assumed by the IRS and other governmental institutions. For tax purposes, all you likely need is your social security number.

However, this form is not the best if you think you may encounter liability exposure such as personal injuries, product warranty issues, etc., in your business. Also, there are some tax related "downsides" to the sole proprietorship, as shown in the diagrams. In this case you may wish to consider a form of business that separates your personal wealth from that of the company. You might need to go directly to one of the Corporate forms.

### 5 S Corporation LIMITATIONS



**The Main Restrictions for S Corporations**

- S Corporations can only have one class of stock
- Type of owners: Individuals (US citizens and resident aliens only) and certain trusts, estates and tax-exempt organizations
- Limit to 100 shareholders

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### HOW TO FIND HELP

When the time has arrived to consider the form of business, perhaps sometime after you plan and begin to build the business, we recommend you visit SCORE® or some of the other free business counseling services, such as the SBDC (Small Business Development Center) at Kirkwood, to get some pointers and advice regarding how to step logically through this process.

If you have a family lawyer, you can also consult him or her. There are also some very low cost legal advisory services in the state of Iowa that can help you make decisions. Contact SCORE® Counselor for further information. There is no reason to spend a lot of money in forming a business, so look for sensible, high quality yet affordable advice. Study, learn, understand completely and then act.

## A "BUSINESS FORM" PRESENTATION

If you wish to read more, please download the presentation below. It is in PDF form.

**CLICK ON IMAGE TO DOWNLOAD.**



### ACKNOWLEDGEMENT AND THANKS

The helpful diagrams in this article were provided courtesy of **Amanda M. D'Amico**, of Moyer & Bergman PLC, Attorneys at Law.

Ms. D'Amico is a past presenter in SCORE®'s "How to really start your own business" business startup course which is offered 3 times a year for a modest price. It provides a wonderful opportunity to learn about business forms and all other topics related to starting and managing a business. See [THIS LINK](#) for more information.

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