VETBIZ RESOURCE CENTER

Basic Business Structures

It is important to find out how the company is structured legally. The type of business structure used will affect your purchasing strategy as well as the eventual price.

Sole Proprietorship

A sole proprietorship is a simple, informal structure that is inexpensive to form; it is usually owned by a single person or a marital community. The owner operates the business, is personally liable for all business debts, can freely transfer all or part of the business, and can report profit or loss on personal income tax returns.

Limited Liability Company (LLC)

An LLC is generally considered advantageous for small businesses because it combines the limited personal liability feature of a corporation with the tax advantages of a partnership and sole proprietorship. Profits and losses can be passed through the company to its members or the LLC can elect to be taxed like a corporation. LLCs do not have stock and are not required to observe corporate formalities. Owners are called members, and the LLC is managed by these members or by appointed managers.

General Partnership

Partnerships are inexpensive to form; they require an agreement between two or more individuals or entities to jointly own and operate a business. Profit, loss, and managerial duties are shared among the partners, and each partner is personally liable for partnership debts. Partnerships do not pay taxes, but must file an informational return; individual partners report their share of profits and losses on their personal return. Short-term partnerships are also known as joint ventures.

C Corporation (Inc. or Ltd.)

This is a complex business structure with more startup costs than many other forms. A corporation is a legal entity separate from its owners, who own shares of stock in the company. Corporations can be created for profit or nonprofit purposes and may be subject to increased licensing fees and government regulation than other structures. Profits are taxed both at the corporate level and again when distributed to shareholders. Shareholders are not personally liable for corporate obligations unless corporate formalities have not been observed; such formalities provide evidence that the corporation is a separate legal entity from its shareholders. Failure to do so may open the shareholders to liability of the corporation’s debts. Corporate formalities include:

- issuing stock certificates
- holding annual meetings
- recording the minutes of the meetings
- electing directors or ratifying the status of existing directors

Corporations should always be assisted by a qualified attorney.

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Sub Chapter S Corporation (Inc. or Ltd.)

This structure is identical to the C Corporation in many ways, but offers avoidance of double taxation. If a corporation qualifies for S status with the IRS, it is taxed like a partnership; the corporation is not taxed, but the income flows through to shareholders who report the income on their individual returns.

Limited Liability Partnership (LLP)

LLPs are organized to protect individual partners from personal liability for the negligent acts of other partners or employees not under their direct control. LLPs are not recognized by every state and those that do sometimes limit LLPs to organizations that provide a professional service, such as medicine or law, for which each partner is licensed. Partners report their share of profits and losses on their personal tax returns. Check with your Secretary of State's office to see if your state recognizes LLPs and if so, which occupations qualify.

Professional Service Corporation (PS)

A PS must be organized for the sole purpose of providing a professional service for which each shareholder is licensed. The advantage here is limited personal liability for shareholders. This option is available to certain professionals, such as doctors, lawyers, and accountants. Check with your Secretary of State's office to find out which occupations qualify.

Limited Partnership (LP)

LPs have complex formation requirements, and require at least one general partner who is fully responsible for partnership obligations and normal business operations. The LP also requires at least one limited partner, often an investor, who is not involved in everyday operations and is shielded from liability for partnership obligations beyond the amount of their investment. LPs do not pay tax, but must file a return for informational purposes; partners report their share of profits and losses on their personal returns.

Non-Profit Corporations

These are formed for civic, educational, charitable, and religious purposes and enjoy tax-exempt status and limited personal liability. Non-profit corporations are managed by a board of directors or trustees. Assets must be transferred to another non-profit group if the corporation is dissolved.

Taken from **http://www.sba.gov/smallbusinessplanner/start/chooseastructure/index.html**