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Business Structures Defined

When starting a business, you may choose from several types of business entities. Choosing the proper business entity for your business is vital to the success of your project.

One of the primary considerations in selecting a business organization is the protection of the owners of the business from liability. Other considerations include tax treatment by the federal and state governments, management structure, future ownership, and capitalization.

State laws determine how particular entities should be set up and conduct their business. These laws are very specific and set out the legal responsibility of each business form. Taxing authorities and regulatory agencies also have laws that pertain to business. The most common business structures are described below:

General Partnership

A general partnership is a partnership in which all partners participate fully in running the business and share equally in profits and losses. While forming a general partnership is easy (there are no filing fees or filing formalities), partners of a general partnership are typically jointly and severally liable for all debts and obligations of the general partnership.

Limited Liability Partnership

A limited liability partnership (LLP) is like a general partnership. The LLP allows all the partners to take an active role in the management of the business while offering members some liability protection from actions of the other partners and the partnership and the partnership employees. LLPs are most often used by groups of professionals such as doctors, accountants or architects.

Limited Partnership

Limited partnerships are partnerships comprised of one or more persons who control the business as general partner(s), and one or more persons (limited partners) who contribute capital and share profits but who do not manage the business and are liable only for the amount of their contribution to the limited partnership.

Limited Liability Limited Partnership

A limited liability limited partnership (LLLLP) is a limited partnership which registers with the Secretary of State as an LLLP. One effect of registration is to limit the vicarious liability of the general partners in the same fashion that registration as an LLP limits the liability of the general partners of a general partnership.

Limited Liability Company

A limited liability company (LLC) is a statutorily created entity comprised of members with limited liability. Limited liability companies can be managed by either their members or managers. Other than the S-Corporation, this is the most likely form of entity formation for entrepreneurs and professionals.

Corporation

A corporation is an entity that has the authority to act as a single person distinct from the shareholders that make up the corporation. Some of the advantages of operating a corporation include its limited liability for shareholders, centralization of management and status as a separate legal entity.

S Corporation

The S Corporation is a corporation that chooses to be taxed under Subchapter S of the Internal Revenue Tax Code. Being an S Corporation is a tax matter only. S Corporations are "tax pass-through" business entities, meaning their profits and losses are reported by their owners on the owner's' personal tax returns. This is the most likely to be recommended (other than the LLC) form of incorporation.

You can file to incorporate as an LLC and be taxed as an S-Corporation and that's one of our favorite ways to set things up because you can save money on self-employment taxes by paying yourself a reasonable salary through payroll and receiving all other profits as non-self employment taxable distributions.

If you are an LLC not taxed as an S-Corporation, ALL of the profits are subject to self-employment tax PLUS you are more likely to be audited if the business tax return is filed on your personal tax return and not separately.

Call us to get a LIFT Start-Up Session scheduled, and we'll meet with you privately to choose the right entity plus other legal, insurance, financial and tax systems for your next business.