

Starting A New Business?

You are starting a new business and do not know which type of entity to be. We cannot give you legal advice, but below is valuable information to help you make a decision. If you have any questions, please contact us.

Characteristics/ Entities	Ownership	Personal Liability of Owners	Tax Treatment	Key Documents For Formation	Management of the Business	Capital Contributions
C Corporations	Unlimited number of shareholders allowed; no limit on stock classes	Generally no personal liability of the shareholders for the obligations of the corporation	Corporation taxed on its earnings at the corporate level and the shareholders have a further tax on any dividends distributed ("double taxation")	Articles of Incorporation Bylaws Organizational Board Resolutions Articles of Incorporation Stock Certificates Stock Ledger	Board of Directors has overall management responsibility and officers have day-to-day responsibility	Shareholders typically purchase stock in the corporation, either common or preferred
S Corporations	Up to 75 shareholders allowed; only one basic class of stock allowed	Generally no personal liability of the shareholders for the obligations of the corporation	Entity generally not taxed as the profits and losses are passed through to the shareholders ("pass-through" taxation)	Articles of Incorporation Bylaws Organizational Board Resolutions Articles of Incorporation Stock Certificates Stock Ledger IRS & State S Corporation election	Board of Directors has overall management responsibility and officers have day-to-day responsibility	Shareholders typically purchase stock in the corporation, but only one class of stock is allowed
Sole Proprietorship	One owner	Unlimited personal liability for the obligations of the business	Entity not taxed, as the profits and losses are passed through to the sole proprietor	DBA filing	Sole proprietor manages the business	Sole proprietor contributes whatever capital needed
General Partnership	Unlimited number of general partners allowed	Unlimited personal liability of the general partners for the obligations of the business	Entity not taxed as the profits and losses are passed through to the general partners	General Partnership Agreement Local filings if partnership holds real estate	The general partners have equal management rights, unless they agree otherwise	The general partners typically contribute money or services to the partnership, and receive an interest in profits and losses
Limited Partnership	Unlimited number of general and limited partners allowed	Unlimited personal liability of the general partners for the obligations of the business; limited partners generally have no personal liability	Entity not taxed, as the profits and losses are passed through to the general and limited partners	Limited Partnership Certificate Limited Partnership Agreement	The general partner manages the business, subject to any limitations of the Limited Partnership Agreement	The general and limited partners typically contribute money or services to the limited partnership, and receive an interest in profits and losses
LLC Limited Liability Company	Unlimited number of "members" allowed	Generally no personal liability of the members for obligations of the business	Entity not taxed (unless chosen to be taxed), as the profits and losses are passed through to the members	Articles of Organization Operating Agreement	The Operating Agreement sets forth how the business is to be managed -- a Manager can be designated to manage the business	The members typically contribute money or services to the LLC, and receive an interest in profits and losses

Business Entity Chart

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Comparison Factors	Sole Proprietorship (SP)	General Partnership (GP)	Limited Liability Company (LLC)	S Corporation (S Corp)	C Corporation - General Stock (C Corp)
Business formation	City tax license may be required. No state filing required	No state filing required. Some states allow GP's to file at state agency. An Agreement between two or more parties. Partnership agreement should be created	Required to file formation document with the State filing agency. Most states require an Operating Agreement	Required to file formation document with the State filing agency. Most states require annual meetings and bylaws. Must elect S status through the IRS, additional filing required	Required to file formation document with the State filing agency. Most states require annual meetings and bylaws
Size	One person ownership	Two or more person ownership	Most states allow single member LLC's but some require 2 or more members	Up to 75 members/ shareholders	Unlimited
Length of Existence	Sole proprietorship either ceases doing business or dies	Depending upon partnership agreement. Typically death or withdrawal of a partner dissolves the GP	Some states allow LLC's to have a perpetual existence. Others depend upon the state's requirements	Perpetual	Perpetual
Liability	SP has unlimited liability and can lose personal assets	General Partners are equally liable or less the partnership agreement states otherwise	Members are not liable for debts accrued by the company or less a member secured the debt with a personal asset	Shareholders are typically not liable for the debts of the corporation. Some officers can be held liable if there is fraud or severe mismanagement.	Shareholders are typically not liable for the debts of the corporation. Some officers can be held liable if there is fraud or severe mismanagement
Operational Procedures	Easiest with few legal requirements	Typically GP's have few legal requirements	Most states have some formal requirements like annual reports but are typically less than a corporation	Annual meetings, filings, and reporting required. Board of Directors and Officers must be maintained.	Annual meetings, filings, and reporting required. Board of Directors and Officers must be maintained
Start up cost	Cost of business tax license	Cost of business tax license	State filing fee is required.	State filing fee is required.	State filing fee is required.
Management	SP is in complete control of managing operations	Or less the partnership agreement states otherwise, each partner has equal management authority	Management is outlined in the LLC's Operating Agreement.	Officers manage day to day corporate activities. Directors manage the officers and the overall company. Directors are elected and therefore managed by the shareholders	Officers manage day to day corporate activities. Directors manage the officers and the overall company. Directors are elected and therefore managed by the shareholders
Taxation	Taxed Once	Taxed Once	Taxed Once	Taxed Once	Double; both the corporation and shareholders are taxed
Pass through taxation for both income and loss	Yes	Yes	Yes	Yes	No
Interest Transferability	No. Or less business is sold to another party	No.	Depends upon the operating agreement	Yes. Some IRS regulations on stock ownership	Shares of stock are easily transferred
Raising Capital	Hard to get outside capital. Owner typically contributes all funds	Partners contribute capital and more capital can be raised by adding new partners	Some operating agreements allow interests to be sold	S Corps can sell stock to raise capital	C Corps can sell stock to raise capital
Dissolution	Easiest	Easy	Complex. Requires filing dissolution document with state filing agency. Some states require a tax clearance prior to dissolution.	Most Complex. Requires filing dissolution document with state filing agency. Some states require a tax clearance prior to dissolution.	Most Complex. Requires filing dissolution document with state filing agency. Some states require a tax clearance prior to dissolution.
Examples	Mom & Pop Ice cream shop	Land Developer	Real Estate Investment Property. Motion Picture. Any type of business depending upon specific state restrictions.	Small business or Family business such as a print shop, Pizza Parlor, or Interior Design.	Public Corporation. Software company, telecommunications company, etc.