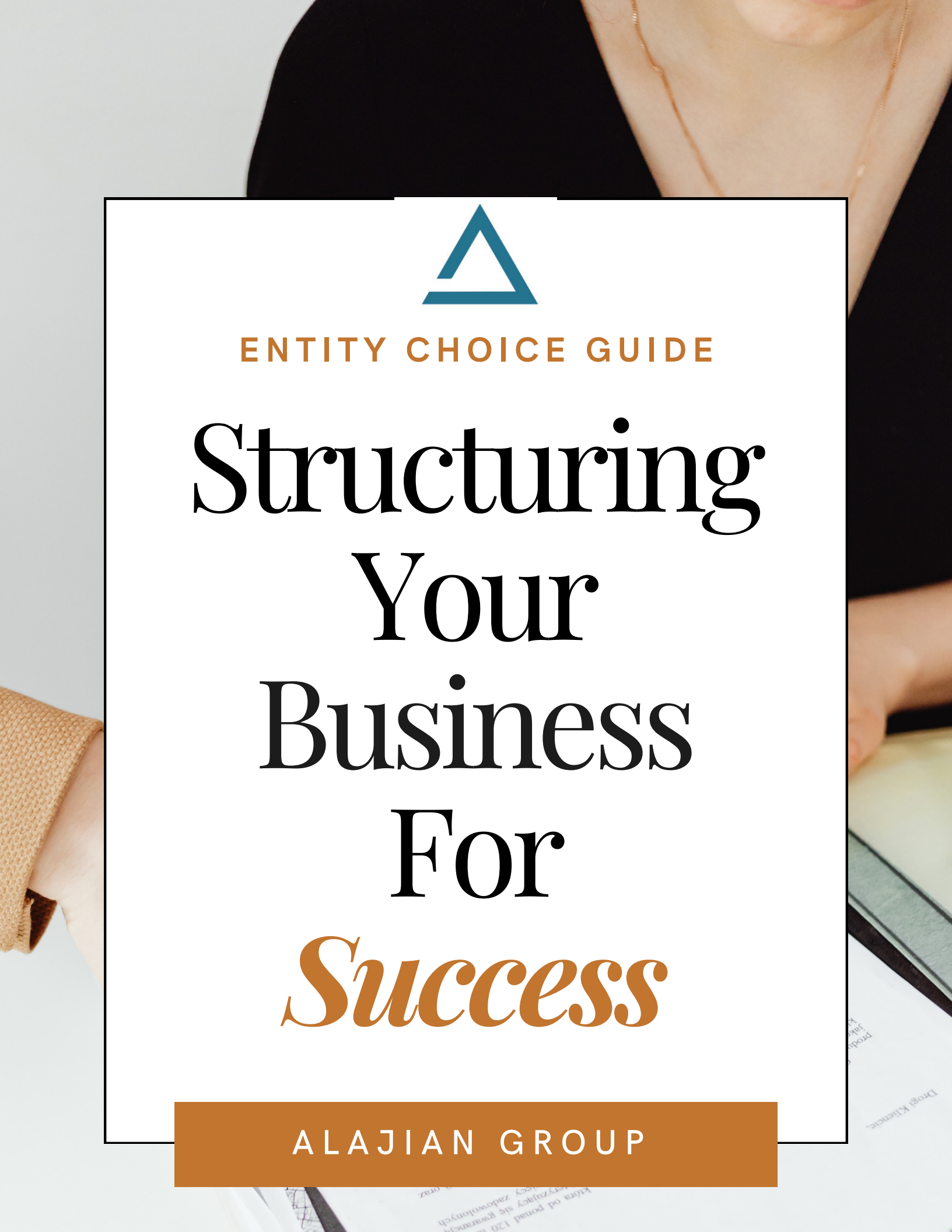

ENTITY CHOICE GUIDE

Structuring Your Business For *Success*

ALAJIAN GROUP

BUSINESS ENTITY GUIDE

Welcome!

One of the first (and most important) things you can do to set your new business up for success is to choose the correct form of business entity!

Keep reading to learn the pros and cons of each of the most common business structures.

Please consult with your tax accountant to determine the best structure for your business given the type of business, your long-term goals, desired shareholders, and any state or local laws.

Sole Proprietorship

A **sole proprietorship** is an unincorporated business with a single owner. In other words, if you start a business by yourself and don't register as a different business entity, you would generally be considered a sole proprietorship.

Pros:

- ✅ Low cost to set up
- ✅ Easy to dissolve
- ✅ Generally less paperwork required than other entities
- ✅ Pass-through taxation
- ✅ No annual filings (other than personal tax return)

Cons:

- 🚫 No personal liability protection (unlimited liability for owner's assets)
- 🚫 Earnings are subject to self-employment taxes
- 🚫 All debt will be personally guaranteed

Partnership

When two or more people agree to perform a trade or business, divide the profits and losses, and don't incorporate, this is generally a **partnership.**

Pros:

- ✅ Pass-through taxation for partners
- ✅ May offer limited liability protection (depending on the type of partner and how the partnership is structured)
- ✅ A partnership agreement can offer flexibility in how the partners split profits and losses

Cons:

- 🚫 Partners in a general partnership have unlimited personal liability
- 🚫 Will need to agree on critical business decisions with other partners
- 🚫 Recommended to have a partnership agreement reviewed by legal counsel
- 🚫 Must file an annual information report

LLC

A **limited liability company** (LLC) is a structure that generally offers limited liability protection paired with pass-through taxation.

Pros:

- ✅ Limited liability protection for owners' personal assets
- ✅ Pass-through taxation for owners (depending on how LLC elects to be taxed)
- ✅ Flexible options to elect how business will be treated for tax purposes

Cons:

- 🚫 Piercing "the corporate veil" can lead to a loss of liability protection
- 🚫 Higher formation costs than a sole proprietorship
- 🚫 States may have annual reporting requirements or franchise taxes
- 🚫 Can be difficult to transfer ownership

S Corporation

An **S corporation** is a tax classifciation for a business that has elected to pass-through income, losses, deductions and credits to a shareholder's tax return.

Pros:

- ✅ Avoids double taxation on corporate income
- ✅ Offers limited liability protection
- ✅ Can reduce owners' self-employment taxes
- ✅ Ability to use the cash method of accounting

Cons:

- 🚫 Must file with the IRS to be taxed as an S-Corporation
- 🚫 May not have more than 100 shareholders
- 🚫 May only have one class of stocks
- 🚫 Certain corporations are ineligible for this status
- 🚫 Must file an annual tax return
- 🚫 States may have annual reporting requirements or franchise taxes
- 🚫 Need to consider reasonable compensation for shareholder-employees
- 🚫 Some states don't recognize this structure

C Corporation

A **C corporation** is a tax classifciation for an entity that elects (or defaults) to be taxed under Subchapter C. Income of a C corporation is subject to tax at both the corporate and personal level.

Pros:

- ✅ Limited liability protection for shareholders
- ✅ Can raise funding through stocks
- ✅ No limit on the number of shareholders or who can own shares
- ✅ Transfer of ownership is easy through stock sales

Cons:

- 🚫 Subject to double taxation (first at the corporate level on income, then at the shareholder level on dividends)
- 🚫 Must file an annual tax return
- 🚫 Must adhere to stricter regulatory requirements based on their state

LET'S CONNECT

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