



The Best Business Structure for Fractionals

A Complete Guide to Choosing Between Sole Proprietorship, LLC, LLC with S-Corp Election, and Corporation



Business Structure Options

Choosing the right business structure is one of the most important decisions for any entrepreneur. Whether you're launching a fractional business or another type of venture, it's essential to understand your options.

The four most common structures, each with its advantages and risks, are:

- Sole Proprietorship
- LLC (Limited Liability Company)
- LLC with an S-Corp Taxation
- Corporation



What is a Sole Proprietorship?

A Sole Proprietorship is the simplest and most informal business structure. If you don't register your business, you're automatically considered a sole proprietor.

Key Features:

- **Ownership:** The business and owner are legally the same entity
- **No Liability Protection:** If your business is sued, your personal assets are at risk
- **Taxation:** Income is reported directly on your personal tax return, similar to an LLC
- **Lack of Credibility:** Many clients prefer to work with businesses that have formal structures like LLCs



Best For:

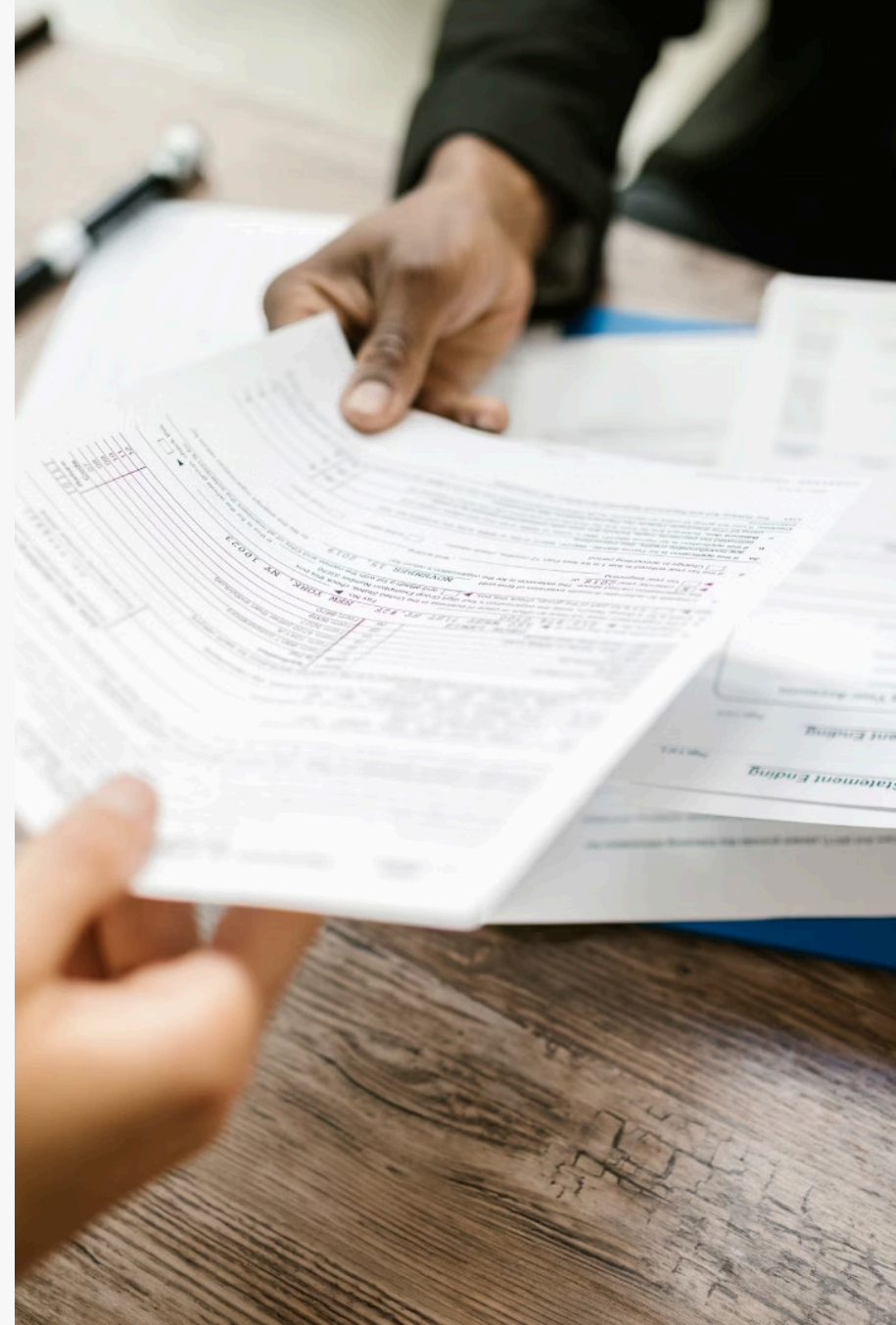
- Freelancers or side hustlers testing their ideas
- Entrepreneurs just starting out (not recommended long-term)

Pro Tip: Avoid Sole Proprietorship. It might seem easy, but it leaves you vulnerable to lawsuits and business debt.

Forming an LLC is often a better long-term move for most entrepreneurs.

Ready to find the best setup for your business?

TAKE THE QUIZ





What is an LLC?

An LLC (Limited Liability Company) is a legally recognized business structure that offers personal liability protection along with flexibility in management and taxation. LLCs are ideal for small businesses, consultants, and entrepreneurs who want to keep things simple while protecting their personal assets.

Why it works for Fractionals

- Personal asset protection
- Pass-through taxation (no corporate tax)
- Low admin burden compared to a corporation
- Flexible management structure

Key Features

- **Ownership:** LLC owners are called "members" and can be individuals, partners, or other entities
- **Liability Protection:** Your personal assets are separate from the business
- **Tax Benefits:** "Pass-through taxation" avoids corporate taxes
- **Flexibility:** No board of directors or shareholder requirements

What is an S-Corp? How does it work with an LLC?

An S-Corporation isn't a business entity like an LLC or corporation. It's a tax election you can make with the IRS. Many entrepreneurs start as an LLC and later elect S-Corp taxation once their income grows.

Why some LLCs elect S-Corp status:

- You pay yourself a reasonable salary (subject to self-employment tax)
- Remaining profits are treated as distributions (not subject to self-employment tax)

Here's how it works:

1. Form an LLC
2. Elect S-Corp status by filing IRS Form 2553
3. Pay yourself through payroll
4. Distribute remaining profit as dividends

An S-Corp is a good fit if:

- You're earning \$60K+ per year in profit
- You want to reduce self-employment taxes
- You're okay with running payroll and filing a separate business tax return

This is not ideal if:

- You're just getting started or not consistently profitable yet
- You want to keep your bookkeeping ultra-simple

Pro Tip: If you're not sure whether to elect S-Corp status, talk to a tax advisor, or check out [HeyCMO's](#) resources.

What is a Corporation (C-Corp)?

A Corporation (C-Corp) is a more complex business structure typically used by companies planning to raise capital or go public.

Ownership

Shareholders own the business, overseen by a board of directors.

Liability Protection

Shareholders are not personally responsible for business liabilities.

Complexity

Requires bylaws, annual meetings, and board management.

Taxation

Subject to double taxation; the business pays corporate taxes, and shareholders pay tax on dividends.

For most small business owners and entrepreneurs, a corporation is overkill, but it can be beneficial for larger businesses planning to raise significant capital or go public.

Quick Comparison

Feature	Sole Proprietorship	LLC	LLC with S Corp Taxation	C-Corp
Liability Protection	No	Yes	Yes	Yes
Taxation	Pass-through	Pass-through	Pass-through	Double taxation
Setup Complexity	None	Simple	More complex	Complex
Maintenance	Low	Low	Moderate	High
Cost to Form	Free or minimal	\$50-500 (varies by state)	Similar to LLC + S Corp election	\$100-500+
Self-Employment Tax	Yes	Yes (unless taxed as S Corp)	Lower (only on salary)	Yes on salary, not on dividends
Ability to Raise Capital	Very limited	Limited	Limited	Easier (issue stock)

This comparison highlights the key differences between business structures to help you make an informed decision for your fractional business.

Still unsure about your business structure?

Take our quick [Which Business Structure is Right for You? Quiz](#)

Get **tailored recommendations** based on your unique situation.

TAKE THE QUIZ NOW



Why an LLC Is the Best Option for Most Entrepreneurs

An LLC offers the best of both worlds: the liability protection of a corporation without the administrative hassle and the tax benefits of a sole proprietorship without the personal risk.



Balanced Protection

Shields your personal assets while maintaining operational simplicity



Tax Efficiency

Enjoy pass-through taxation without the double taxation of corporations



Flexibility

Adapt your business structure as you grow, with options to elect S-Corp status later

This makes it the most popular and flexible business structure for entrepreneurs, freelancers, and small business owners.

In Summary: Why Most Entrepreneurs Choose an LLC



Sole Proprietorship

Sole Proprietorship = zero protection. One lawsuit and your personal assets are at risk.



C-Corp

C-Corp = double taxation, higher compliance costs, and built for VC-backed startups.



LLC

LLC = liability protection + tax flexibility. For profits over \$60K+, you can elect S-Corp taxation to save on self-employment taxes.



What's Included in an LLC Formation Package

We've partnered with trusted providers to help you form your LLC the right way – fast, compliant, and built for success.



Essential Paperwork & Agent

We ensure all legal paperwork is completed accurately and provide reliable **registered agent services** for full compliance.



Digital Presence Setup

Seamlessly establish your professional online identity which may include business email and website setup.



Guided, Confident Filing

Benefit from expert guidance, streamlined processes, and the confidence that your LLC is formed correctly, every step of the way.

FORM YOUR LLC

Your Partner in Fractional Success

At *Hey CMO*, we're dedicated to empowering fractional entrepreneurs like you with the knowledge and tools needed to build, scale, and protect your business. From expert guides on business structures to practical advice on growth, we're here to help you thrive.

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