**Title:** Does Your Business Need a New Legal Structure for the New Year?

**Subtitle:** As we begin the New Year, many small business owners will take stock of their business and set goals for 2012. In doing so, you should consider whether your legal structure still fits your <span style="text-decoration: underline;">business needs.</span>

**Meta Description:** As we enter a new year, you should consider whether your legal structure still fits your business needs.

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As we begin the New Year, many small business owners will take stock of their business and set goals for 2012. In doing so, you should consider whether your legal structure still fits your business needs.

All businesses evolve over time - maybe its time to bring on a partner to help the business grow or maybe to take the leap from an LLC to a corporation.

To help inform your decision, below is a brief summary of the four common legal structures, including the potential advantages and disadvantages of each.

Sole Proprietorship: This is, of course, the simplest structure. The upside is that it requires no paperwork to get off the ground (just a good business idea), and there are no formal rules to follow. The downside is that the business and the owner are one and the same. Therefore, the owner is responsible for all of the obligations, including debts and liabilities, of the business.

In addition, any business income or losses are reflected on the owner’s personal tax return. Given the potential liability, a sole proprietorship is not recommended for businesses involved in risky activities.

Partnership: A partnership is very similar to a sole proprietorship, with the exception that it has more than one owner (partners). Similarly, the partners pay taxes on their shares of the business income using their personal tax returns. It is important to note that each partner is personally liable for all of the business debts and claims, not just a proportionate share.

Limited Liability Company: As their name implies, LLCs offer one great advantage over sole proprietorships and partnerships - limited liability. This means that LLCs limit   personal liability for business debts and court judgments against the business and shield an owner’s personal assets.

For that reason, LLCs make sense for owners who run risky businesses or have significant personal assets. However, LLCs are also more complicated and costly to operate. For instance, LLCs must be registered with the state and follow other formalities, much like a corporation.

Corporation: Like an LLC, a corporation is a distinct legal entity, separate from its owners. The corporation is the most complicated business structure, and it involves the most formalities and record keeping obligations. Forming a corporation requires filings with governmental agencies and paying certain filing fees, and, corporations are required to elect officers and follow other formalities.

These additional burdens, however, come with several advantages. Unlike all of the other structures described above, the tax obligations of the corporation’s business are distinct, and owners of corporations pay taxes only on profits that they actually receive in the form of salaries, bonuses, and dividends.

If you have already established your business using one legal structure, that decision is not set in stone. An experienced business lawyer can help you select a more appropriate structure, and advise and assist you in the conversion process.

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