There are many types of business structures out there, such as **Limited Liability Company (LLC)**, a corporation (denoted with *co.* or *corp.* at the end of a company's name); a **corporation** is very similar to **incorporated** (denoted as *inc.* at the end of the company's name). Incorporated is simply the process of the company being a corporation, nothing else, legality and tax advantages are both the same. These two should not be differentiated from one or the other as one leads to the other. The term corporation should be used when talking of *business institutions or organizations or groups*. While the incorporated should be used when referring to the *legal steps taken to form the corporation*. There are two types of corporations however, there is the **C Corporation**, and there is also the **S Corporation**. Other uncommon corporations are **Nonprofit Corporation**, **Professional Corporation**. LLC types; there is the **Series LLC**. There is also partnership, there's two types of partnerships: **General Partnership** and **Limited Partnership**.

- Limited Liability (LLC)
- C Corporation
- S Corporation
- Nonprofit Corporation
- Professional Corporation
- Series LLC
- General Partnership
- Limited Partnership

C Corporation

- A C corporation is a legal structure that businesses can choose to organize themselves under to limit their owners 'legal and financial liabilities, C corps are an alternative to S corps, where profits pass through to owners and are only taxed at the individual level, and limited liability companies, which provide the legal protections of corporations but are taxed like sole proprietorships.
- It's the most common type of corporation in the U.S. – and with good reason. C corporations offer unlimited growth potential through the sale of stocks, which

means you can attract some very wealthy investors. Plus, there is no limit to the number of shareholders a c corp can have.

- **Advantages** of a C Corporation:
    - Limited Liability; this applies to directors, officers, shareholders, and employees.
    - Perpetual existence, even if the owner leaves the company.
    - Enhanced credibility. Gain respect among suppliers and lenders.
    - Unlimited growth potential; the sky's the limit thanks to the sale of stock.
    - No shareholders limit. However, once the company has $10 million in assets and 500 shareholders, it is required to register with the SEC (Securities Exchange Commission) under the Securities Exchange Act of 1934.
    - Certain tax advantages. Enjoy tax-deductible business expenses.
- **Disadvantages** of a C Corporation:
    - Double taxation, it's inevitable as revenue is taxed at the company level and again as shareholder dividends.
    - Expensive to start. There are a lot of fees that come with filing the articles of incorporation. And corporations pay fees to the state in which they operate.
    - Regulations and formalities. C corps experience more government oversight than other companies due to complex tax rules and the protection provided to owners from being responsible for debts, lawsuits, and other financial obligations.
    - No deduction of corporate losses. Unlike an S corporation, shareholders can't deduct losses on their personal tax returns.

S Corporation (Subchapter S)

- A Subchapter S (S corporation) is a form of corporation that meets specific Internal Revenue (IRS) Code requirements, giving a corporation with 100 shareholders or less the benefit of incorporation while being taxed as a *partnership*. The corporation can pass income directly to shareholders and avoid the double taxation (taxed at company level and shareholder dividends) that is inherent with the dividends of public companies, while still enjoying the advantages of the corporate structure. Requirements include being a domestic corporation, not having more than 100 shareholders, including only eligible shareholders and having only one class of stock.

- It's kind of like the lite version of a C Corporation. An S Corporation offers investment opportunities, perpetual existence, and that coveted protection of limited liability. But, unlike a C Corporation, S Corporations only have to file taxes yearly and they are not subject to double taxation.
- **Advantages** of S Corporations:
    - Limited liability. Company directors, officers, shareholders, and employees enjoy limited liability protection.
    - Pass-through taxation. Owners report their share of profit and loss on their individual tax returns.
    - Elimination of double taxation of income. Income is not taxed twice - once as corporate income and again as dividend income.
    - Invest opportunities. The company can attract investors through the sale of shares of stock.
    - Perpetual existence. The business continue to exist even if the owner leaves or dies.
    - Once-a-year tax filing requirement. Versus C Corporations, which must file quarterly.
- **Disadvantages** of S Corporations:
    - U.S. citizens and permanent residents only. Unlike the C Corporation and LLC (Limited Liability Company), you have to be a legal resident of the U.S.
    - Limited ownership. An S corporation may not have more than 100 shareholders.
    - Formation and ongoing expenses. It is necessary to first incorporate the business by filing Articles of Incorporation with your desired state of

incorporation, obtain a registered agent for your company, and pay the appropriate fees. Many states also impose ongoing fees, such as annual report and/or franchise tax fees.

- Tax qualification obligations. Mistakes regarding the various filing requirements can accidentally result in the termination of S Corporation status.
- Closer IRS scrutiny. Payments to employees and shareholders could be distributed as either salaries or dividends. Each as taxed differently, which is what leads the IRS to scrutinize that distribution more closely.

Limited Liability Company (LLC)

- A limited liability company (LLC) is a corporate structure whereby the members of the company cannot be held personally liable for the company's debts or liabilities. Limited liability companies are essentially hybrid entities that combine the characteristics of a corporation and a partnership or sole proprietorship. While the limited liability feature is similar to that of a corporation, the availability of flow-through taxation to the members of an LLC is a feature of partnerships.
- Simply put, it's the least complex business structure. Unlike an S corp or C corp, an LLC's structure is flexible. It also gives you the perk of pass-through taxes, limited liability (obviously), and legal protection for your personal assets. Plus the added benefit of looking more legit than the other guys.
- *Self-Note:* With limited liability is where an investor only loses what he has invested, but if the entity he has invested in owes creditors (people who lend the entity money) money, the creditors are only allowed to go after the BUSINESS'S assets, but not the INVESTOR'S personal assets. *Example:* John invested $50,000 in ABC LLC, if the company becomes bankrupt, John loses all of that $50,000. And let's say that ABC LLC also owes Citi bank money of $100,000, Citi can only go after ABC LLC for that money, but not John's personal assets.
- A limited liability company, or LLC, cannot issue stock. Instead, an LLC is structured to have single or multiple owners of that entity, who are referred to as

members. Members can be added and subtracted over the life of the LLC, and profits are able to be distributed by varying amounts to each of the members.

- **Advantages** of Limited Liability Company:
  - Pass-through taxes. There's no need to file a corporate tax return. Owners report their share of profit and loss on their individual tax returns, meaning you avoid double taxation.
  - No residency requirement. Owners need not be U.S. citizens or permanent residents.
  - Legal protection. Owners have limited liability for business debts and obligations (Owners' personal assets are protected.)
  - Enhanced credibility. Partners, suppliers, and lenders may look more favorably on your business when you've formed an LLC.
- **Disadvantages** of Limited Liability Company:
  - Limited growth potential. You cannot issue shares of stock to attract investors.
  - Lack of uniformity. LLCs can be treated differently in different states.
  - Self-employment tax. Earnings can be subject to this kind of taxation.
  - Tax recognition on appreciated assets. This could happen if you convert an existing business to an LLC. One more way that extra taxation can occur.

Advantages and Disadvantages of **Corporations** vs **Limited Liability Companies**:

Advantages of an LLC	Advantages of a Corporation
✓ No limit on the number of owners	✓ May issue shares of stock to attract investors
✓ Profit and loss are passed through to the owners' individual tax returns	✓ Corporate income splitting may help lower overall tax liability
✓ No annual meeting or minute book requirements	

Disadvantages of an LLC	Disadvantages of a Corporation
✓ Cannot engage in corporate income splitting to lower tax liability	✓ C corp tax structure requires double taxation of corporate profits (s corp's does not)
✓ Cannot issue stock	✓ Must hold annual meetings and record minutes
	✓ S corporations have restrictions on the number of owners

Sole Proprietorship

- A sole proprietorship, also known as a sole trader or a proprietorship, is an unincorporated business with a single owner who pays personal income tax on profits earned from the business. With little government regulation, a sole proprietorship is the simplest business to set up or take apart, making sole proprietorships popular among individual self-contractors, consultants or small business owners. Many sole proprietors do business under their own names because creating a separate business or trade name isn't necessary.

Partnership

- A partnership is an arrangement in which two or more individuals share the profits and liabilities of a business venture. Various arrangements are possible: all partners might share liabilities and profits equally, or some partners may have limited liability. Not every partner is necessarily involved in the management and day-to-day operations of the venture. In some jurisdictions, partnerships enjoy favorable tax treatment relative to corporations.

Advantages and disadvantages of **Business Structures**:

	C Corp	S Corp	LLC	General Partnership	Sole Proprietor
Owners have limited liability for business debts and obligations	✔	✔	✔		
Created by a state-level registration that usually protects the company name	✔	✔	✔		
Business duration can be perpetual	✔	✔	✔		
May have an unlimited number of owners	✔		✔	✔	
Owners need not be U.S. citizens or residents	✔		✔	✔	✔
May be owned by another business, rather than individuals	✔		✔		
May issue shares of stock to attract investors	✔	✔			
Owners can report business profit and loss on their personal tax returns		✔	✔	✔	✔
Owners can split profit and loss with the business for a lower overall tax rate	✔				
Permitted to distribute special allocations, under certain guidelines			✔	✔	
Not required to hold annual meetings or record meeting minutes			✔	✔	✔

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