Title:
Choosing The Right Business Structure

Word Count:
947

Summary:
Description of aspects to consider when choosing a business structure.

Keywords:
incorporation, business structure, llc, s-corporation, c-corporation

Article Body:

Now that you're ready to set up a shop and call yourself an entrepreneur, the next thing you have to decide is the business structure you're going to use.

Your business structure will decide what kind of taxes and how much in taxes you'll pay, how you will register it, how many people will be in business with you up to the nitty-gritty details of your day-to-day operations. Choosing the right business structure is just as important as choosing the right product to sell, as this will play a huge part in the administrative side of your business.

So what are your options? There are different kinds of structures but these have been categorized into two: the corporate and the non-corporate.

The corporate structures are typically the different kinds of corporations which include the Business Corporation, also known as the C-corporation. Also among the corporate structures are the S-corporation and the Close Corporation.

For non-corporate structures, we have: Sole proprietorship, the different kinds of Partnerships (General Partnerships, Limited Liability Partnerships, Limited Partnerships) and the Limited Liability Company.

Each of them has advantages and disadvantages -- but all of these may be relative depending on your needs and goals.

To give you a guide on choosing the best business entity for yourself, consider these factors:

a) Liability Protection -- getting into business is always a risk. No matter how much time, effort and money you put into it, there are no real guarantees for success. There are structures which offer maximum liability protection for the business owners, and some which do not. For example, if your business gets a lawsuit, who pays? You or your business? The answer depends on the kind of business structure your business has. Most often, if your business is a high-risk venture, it would be best to choose structures which will offer maximum liability protection like LLC's or corporations.

b) Taxes -- Taxes is one of the major concerns of would-be-businessmen. The question most often asked is: What type of structure will enable me to pay least in tax dollars? Certain types of structures like the sole proprietorship and partnership allow business owners to be taxed only once -- at the personal income level, while some structures like the C-corporation and closed corporation have double taxation. The LLC on the other hand, is taxed depending on the number of its members.

The value of knowing the taxation principles for each structure is important especially if your business will be immediately profitable in its early years.

c) Control and Management -- who will manage your business? How many have stakes on your business? How much control are you willing to relinquish to others? Do you want to run your business by yourself?

Your business structure often decides how much control you and the other stakeholders would have over the business. If you want maximum control where you and nobody else has a say, then sole proprietorship is the way to go. However, if there are other stakeholders, there are structures which can define the amount of control the co-owners will have. Limited partnership for example, gives the active partner maximum control over the day to day operation of the business, with the limited partner having no say whatsoever in its operations. However, if you and your partners demand the same rights, the limited liability company is a good option since under the law all members are given equal rights over the business.

If control is an issue, look into the management aspect of each structure and choose what will be most acceptable for you.

d) Continuity and transferability -- How long will you be in business? If you have no clear cut answer or if your answer is "as long as it is profitable" consider the continuity or lifespan of a business. There are structures which can grant unlimited life for a business -- meaning, that even if the owners die or the stakeholders sell their share, the business can continue. Some structures do not allow this, and are dissolved much more easily in certain circumstances like the owner's death, the partner moving out, divorce, buying out and so on. Another issue which you should also consider is transferability or the ease of selling your shares or interests in a business in case you wanted out. Corporate structures give the owners ease in transferring their shares to another stockholder or member just by signing it over. On the other hand, LLCs and partnerships will have a harder time of transferring their shares or interests without the company getting dissolved unless they have a buy-out agreement in place.

e) Capitalization -- how much capital do you have to set up a business? Obviously, simpler structures like sole proprietorships and partnerships can be set up for a minimal cost. Corporate structures on the other hand, have a lot of paperwork, both in its initial set-up and maintenance that it requires some real hard cash to run. If you will need additional capital later on, consider the structure that will allow you to do this with minimum fuss. For example, corporations can easily raise money by offering their stocks to the public, while a sole proprietorship is limited to raising funds from personal loans or bank loans.

The bottom line -- nobody can tell what business structure is right for you, but yourself. Choosing the right entity requires a lot of careful deliberation on your part. Aside from the factors above, you should also consider your resources at hand and your management capability. Being aware of your particular strengths and needs and being informed of the different aspects of the each business structure is important to identify the right business structure for you.