The Foundation Options for Your Business

Sole Proprietorship

The IRS defines a sole proprietorship as “someone who owns an unincorporated business by themselves.” You can begin working for yourself at any time without filing state forms or regional tax documents that require dues and fees. You can take contracts and accept bids under your own name. If you begin a business as a sole proprietor, you do not have to elect a board of directors to oversee company operations. You are in complete control and do not have to answer to anyone for your decisions. However, your personal finances and legal situation are one and the same with your business finances and legal situations. You are liable for your company’s actions and interactions. If your business were to declare bankruptcy, it will affect you and your family personally. You must pay income taxes and self-employment taxes on the entire revenue of the business.

Limited Liability Companies

Simpler and more flexible than a corporation. It offers the flow-through taxation that individually operated companies enjoy. Separates the individual owner from the business and its liabilities. You can have one owner or a limited number of owners. You do not have to elect board members or directors of operations. Nor do you buy/trade stocks for ownership percentages.
You do not have to do the same amount of financial reporting and legal documentation that corporations must do. Entity members can choose their method of taxation. Members can own unequal company percentages but split profit or loss 50/50. Your personal finances and legal situation are one and the same with your business finances and legal situations.
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General Partnerships

If you want to go into a business with a friend, family member, or colleague, but you want the same freedom from fees the sole proprietorship gives you. Same as sole proprietorship, allows more than one owner to run the company. With more than one owner, you can portion the start-up costs, the responsibilities, and the workload. You can share the burden of business risks and expenses. Partners must share profits, losses, and decisions. Neither has complete control over the company. Each must act and react with the other owner in mind or their approval. Both your personal income and expenses, your assets and liabilities, and your tax deductions and ramifications are linked to your business and your business to you. You cannot protect yourselves from liabilities, lawsuits, or taxes your business incurs because you are your business and any of these instances fall on you and your partner.

C-Corporations

Operating as a C Corporation can reduce company and shareholder tax liabilities because “fringe benefit” items like healthcare are tax-deductible. C-Corp shareholders can utilize and offer medical reimbursement plans. Those plans enable the company to deduct medical payments up to a fixed amount and allow the shareholders to receive personal tax deductions from those payments. C-Corps can also take advantage of tax-free “fringe benefits” like travel and entertainment. As a publicly traded company, shareholders can ask investors for millions of dollars at a time to grow their business into Facebook or Amazon.

S-Corporations

This allows business owners to own stock and receive the same corporate veil of liability protection as the C-Corp but avoids the double-taxation C-Corps face. S-Corp passes down its profits and losses directly to the shareholders, preventing the company and the owners from having to pay taxes on revenue. S-Corp can attract investors and sell and transfer corporate stock. The investors by-ins allow for growth that an individually run company cannot achieve. Owners are required to file or maintain many federal and state documents. S-Corps have stock restrictions and can only use one class of stock however, the stock can have different voting rights: non-voting stock, voting stock, limited stock, general, etc. S-Corp requires all shareholders and officers within the company to take a “reasonable” salary even if the company is not making a profit. This can be problematic for new business owners.

Benefit Corporations

Allows directors and officers to balance financial and non-financial interests when making business decisions. Expressly state their public benefit purpose in their governing documents and marketing materials. When making decisions, the directors and officers of a BC are required to consider the impact on not only their shareholders, but also non-financial interests, such as company’s employees, supplier, and customers. Such considerations could create a threat to near-term shareholder profit.