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Are you starting a new company and can't decide which business structure to use? You're not alone. Every small business owner faces this choice. It requires some thought about the type of industry you're in and how you plan to grow and develop your business. Before you decide on a business structure, here are a few issues to think about: How easy is it to set up and operate? What are the tax advantages and disadvantages? What are the potential legal liabilities? How easy will it be to liquidate the business? Do you plan on raising more equity capital as the business grows? What are the regulations to keep the business structure active? How much record-keeping is required? What happens to the business upon the death of the owner? The easiest business structure to start off with is the sole proprietorship. A sole proprietorship is the common business structure. It makes sense if you're in a business where personal liability is not a concern. From a legal standpoint, the owner and the proprietorship are the same. It's the easiest to set up because it doesn't require the filing of any papers. States do not require the registration of proprietorships. Profits are only taxed once on the owner's personal tax returns. The owner has complete control of the business and makes all the decisions. Tax forms are not complicated. Assets are easy to liquidate upon the death of owner. The owner is exposed to unlimited legal liabilities. If you lose a lawsuit, you could lose your home, car and other personal assets. Proprietorships cannot accept capital from outside investors. Borrowing money is more difficult. Banks are reluctant to make business loans to sole proprietorships. You will have to rely on savings, home equity loans or loans from family members. Business will be liquidated when owner passes away. But, what if your business has more than one owner? A partnership could work in this case. A partnership is a sole proprietorship that allows the business to have more than one owner. They're easy to form. A partnership can bring together a group of individuals with different talents to share in the responsibilities of running a business. If the partnership agreement permits, a partnership could continue to exist if one of the partners dies. Partners are exposed to unlimited liabilities. Owners will not always agree on decisions. This could lead to management conflicts. Partners share in the profits of the business, but will not always feel they are being adequately compensated for their contributions and services. Are you concerned about the unlimited liability exposure that risks losing your personal assets in a lawsuit? The next step up is to form a limited liability company. The owners have limited liability. The owner's personal assets are protected from judgments and defaults on company debts. Owners can choose how the business pay taxes. It could be a proprietorship, a partnership or a corporation. Most states don't require LLCs to have annual meetings. An LLC is not required to have a board of directors. The number of shareholders is unlimited. Legal and accounting costs are higher than proprietorships. LLCs must file articles of incorporation with the state of domicile. Owners must create an operating agreement that defines management authority and limits to making decisions. In some cases, an LLC will cease to exist upon the death of a member, unless otherwise specified in the operating agreement. Suppose your business is growing and you need to attract more lender and investors. A C Corporation may be necessary. A corporation is a legal entity that's completely separate from the shareholders who own stock in the company. It has the authority to enter into contracts and buy and sell property. A corporation can sue other parties but can also be sued. Owners do not have personal liability for debts of the corporation. A shareholder only risks the amount of the investment in the company. Has more access to financial resources. A corporation can sell stock to raise capital, obtain bank loans or issue bonds for long-term financing. Corporations are better able to attract more talented and skilled employees than proprietorships. The corporations continues to exist separately from the lives of its stockholders. A C Corp is the most complex business structure and requires a lawyer to set up. Earnings could be subject to double taxation. Not thrilled with the prospect of paying taxes twice with a C Corp? An S Corp could be your solution. S Corporations combine the tax benefits of proprietorships and LLCs with the liability protection of C Corps. Avoids double taxation by passing income through to the owners. The structure of an S Corp protects the personal assets of the shareholders. Lenders are more willing to make loans to S Corps. Articles of incorporation must be filed with the state. An S Corp is limited to 100 shareholders. It can only have one class of stock. Fringe benefits provided by the company to shareholder-employees are taxable as compensation. The choice of which business structure to use demands thought about your type of business and what you want it to look like. If the business is just yourself, a sole proprietorship could be enough. But, if you're worried about personal liability and risking personal assets and taxes, consider an LLC, a C Corp or an S Corp. In order to continue enjoying our site, we ask that you confirm your identity as a human. Thank you very much for your cooperation. Career developmentMajor Forms of Business Organizations (With Examples)By Indeed Editorial TeamUpdated March 31, 2021 | Published April 17, 2020Updated March 31, 2021Published April 17, 2020Starting a business involves making many important decisions, especially in terms of choosing the right form of business structure. Taking enough time to research your options and understand how each of the major organization structures work may help you make the best choice for your company. In this article, we discuss the major forms of business structures, including the advantages and disadvantages of each, and how to choose the right structure for your needs.What are the five forms of business organizations?The five forms of business organizations include the following:PartnershipCorporationSole proprietorshipCooperativeLimited liability companyPartnershipYou can classify a business partnership as either general or limited. General partnerships allow both partners to invest in a business with 100% responsibility for any business debts. They don't require a formal agreement. In comparison, limited partnerships require owners to file paperwork with the state and compose formal agreements that describe all of the important details of the partnership, such as who is responsible for certain debts.Some advantages of partnerships include:Easy to establish: Compared to other business structures, partnerships require minimal paperwork and legal documents to establish.Partners can combine expertise: With more than one like-minded individual, there are more opportunities to increase their collaborative skillset.Distributed workload: People in partnerships commonly share responsibilities so that one person doesn't have to do all the work.Disadvantages to consider:Possibility for disagreements: By having more than one person involved in business decisions, partners may disagree on some aspects of the operation.Difficulty in transferring ownership: Without a formal agreement that explicitly states processes, a business may come to a halt if partners disagree and choose to end their partnership.Full liability: In a partnership, all members are personally liable for business-related debts and may be pursued in a lawsuit.An example of a partnership is a business set up between two or more family members, friends or colleagues in an industry that supports their skill sets. The partners of a business typically divide the profits among themselves.CorporationA corporation is a business organization that acts as a unique and separate entity from its shareholders. A corporation pays its own taxes before distributing profits or dividends to shareholders. There are three main forms of corporations: a C corporation, an S corporation and an LLC, or limited liability corporation.Advantages of corporations include:Owners aren't responsible for business debts: In general, the shareholders of a corporation are not liable for its debts. Instead, shareholders risk their equity.Tax exemptions: Corporations can deduct expenses related to company benefits, including health insurance premiums, wages, taxes, travel, equipment and more.Quick capital through stocks: To raise additional funds for the business, shareholders may sell shares in the corporation.Disadvantages include:Double taxation for C-corporations: The corporation must pay income tax at the corporate rate before profits transfer to the shareholders, who must then pay taxes on an individual level.Annual record-keeping requirements: With the exception of an S-corporation, the corporate business structure involves a substantial amount of paperwork.Owners are less involved than managers: When there are several investors with no clear majority interest, the management team may direct business operations rather than the owners.Common examples of corporations include a business organization that possesses a board of directors and a large company that employs hundreds of people. About half of all corporations have at least 500 employees.Related: Corporate Life Cycle: Everything You Need to KnowSole proprietorshipThis popular form of business structure is the easiest to set up. Sole proprietorships have one owner who makes all of the business decisions, and there is no distinction between the business and the owner.Advantages of a sole proprietorship include:Total control of the business: As the sole owner of your business, you have full control of business decisions and spending habits.No public disclosure required: Sole proprietorships are not required to file annual reports or other financial statements with the state or federal government.Easy tax reporting: Owners don't need to file any special tax forms with the IRS other than the Schedule C (Profit or Loss from Business) form.Low start-up costs: While you may need to register your business and obtain a business occupancy permit in some places, the costs of maintaining a sole proprietorship are much less than other business structures.Disadvantages include:Unlimited liability: You are personally responsible for all business debts and company actions under this business structure.Lack of structure: Since you are not required to keep financial statements, there is a risk of becoming too relaxed when managing your money.Difficulty in raising funds: Investors typically favor corporations when lending money because they know that those businesses have strong financial records and other forms of security.Some typical examples of sole proprietorships include the personal businesses of freelancers, artists, consultants and other self-employed business owners who operate on a solo basis.Related: What Is Equity? Tips for Small Business OwnersCooperativeA cooperative, or a co-op, is a private business, organization or farm that a group of individuals owns and runs to meet a common goal. These owners work together to operate the business, and they share the profits and other benefits. Most of the time, the members or part-owners of the cooperative also work for the business and use its services.Advantages of a cooperative include:Greater funding options: Cooperatives have access to government-sponsored grant programs, like the USDA Rural Development program, depending on the type of cooperative.Democratic structure: Members of a cooperative follow the "one member, one vote" philosophy, meaning that everyone has a say, regardless of their investment in the co-op.Less disruption: Cooperatives allow members to join and leave the business without disrupting its structure or dissolving it.Disadvantages include:Raising capital: Larger investors may choose to invest in other business structures that allow them to earn a larger share, as the cooperative structure treats all investors the same, both large and small.Lack of accountability: Cooperatives are more relaxed in terms of structure, so members who don't fully participate or contribute to the business leave others at a disadvantage and risk turning other members away.Many cooperatives exist in the retail, service, production and housing industries. Examples of businesses operating as cooperatives include credit unions, utility cooperatives, housing cooperatives and retail stores that sell food and agricultural products.Limited liability companyThe most common form of business structure for small businesses is a limited liability company, or LLC, which is defined as a separate legal entity and may have an unlimited amount of owners. They are typically taxed as a sole proprietorship and require insurance in case of a lawsuit. This form of business is a hybrid of other forms because it has some characteristics of a corporation as well as a partnership, so its structure is more flexible. Some advantages of an LLC include:Limited liability: As the name states, owners and managers have limited personal liability for business debts, whereas individuals assume full responsibility in a sole proprietorship or partnership.Pass-through taxation: Owners of LLCs may take advantage of "pass-through" taxation, which allows them to avoid LLC and corporation taxes, and owners pay personal taxes on business profits.Flexible management: LLCs lack a formal business structure, meaning that their owners are free to make choices regarding the operation of their businesses.Some disadvantages include:Associated costs: The start-up costs associated with an LLC are more expensive than setting up a sole proprietorship or partnership, and there are annual fees involved as well.Separate records: Owners of LLCs must take care to keep their personal and business expenses separate, including any company records, whereas sole proprietorships are less formal.Taxes: In regards to unemployment compensation, owners may have to pay it themselves.Common examples of limited liability companies include start-ups and other small businesses. Family-owned businesses and companies with a small number of members may operate as an LLC because it is a flexible business model that allows members to be active or passive in their roles.How do you choose a form of business?Before you make your business official, consider the following steps to help you decide which form is best for your needs:1. Find your passionSuccessful business owners build a business around what they love doing the most. People who have a passion for making specialty items or a desire to change the world by offering a unique service may choose to form a start-up that allows for flexibility and creativity. Once you have a solid understanding of your goals, it is easier to move on to the next stage of planning.Related: How to Find Your Passion2. Discuss the detailsDiscuss your final business plan with other members of your business, if applicable, to ensure that everyone clearly understands future business operations. After this, you can choose the structure that best serves your needs. If your business has more than one owner or decision-maker, it is important to create a written agreement that details the specifics of your business plan, including costs, responsibilities, goals and timelines. You also have to decide on a business name, determine funding and find the perfect location.3. Review the common business structuresOnce you have decided on the most important details related to your business, you can decide which business structure works best for your plan. The legal form your business takes determines your risk in the business, including your eligibility for financial returns. Knowing which business structure best serves your needs depends on many factors, including the number of people involved and their desired roles, as well as your future goals. Review the five most common types of structures thoroughly to decide which plan works best for you and your business before moving ahead with the registration process.

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