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CHOOSE BUSINESS STRUCTURE ON FLEXIBILITY, COMPLEXITY, TAX LIABILITY

Of all the things you'll do to get your startup off the ground, choosing the right business structure is one of the most important.

Everything from your personal liability to the way you'll use your profits depends on the business structure you choose. Consider the following when selecting the organization type for your business: flexibility, complexity, liability protection, implications for your taxes, and permits and licensing requirements.

There are several types of business structures to consider, each with advantages and disadvantages. Below is a roundup of the most common structures with guidance on how to choose a business structure that's right for you.

Sole Proprietorship

A sole proprietorship is the simplest and easiest business structure to form. In fact, it's the default structure if you're actively in business, but don't register as something else.

As a sole proprietor, you can operate under a trade name, commonly known as a DBA ("Doing Business As") or a fictitious name. Under this structure, your business is you — you're responsible for all the business' assets, liabilities and debts since they're not considered separate from your own. As the owner you are in direct control and all the profits go to you. It offers the greatest freedom from regulations. Another advantage is the bookkeeping is simple.

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Be aware though that there is unlimited liability with a sole proprietorship. If you need capital to expand, it is more difficult to access with this formation.

Partnership

If a sole proprietorship is the simplest business structure for one business owner, a partnership is the simplest structure for two or more owners. With a partnership, you have additional sources of capital and a broader management base. Partnerships can take a variety of forms — general partnerships, where everything is shared equally among all partners; limited partnerships, where one person has control of the company and is responsible for all its liabilities; and limited liability partnerships, where all partners have a share of the company's liabilities.

Like sole proprietorships, partnerships are common structures for new businesses with more than one owner, or for entrepreneurs who want to test the waters before forming a more formal business structure.

Corporation

Corporations are generally the most complicated business structure, cost the most in legal fees to set up and are legal entities in their own right — they can own property, sell ownership rights in the form of stocks and be a party in a lawsuit, for example.

There are several different types of corporations, but the most common are C corporations (or C corp), S corporations (or S corp) and nonprofit corporations.

The differences between the two generally come down to how profits are taxed. In a C corp, profits are taxed twice — once on the business or corporate level and then again on the personal level when those profits are passed on to shareholders.

In an S corp, profits are taxed once because they can be passed through and treated as a shareholder's personal income. S corps are still legal entities but face more limitations than a C corp in terms of ownership eligibility and filing requirements. They are expensive to organize and closely regulated. Both S and C corps require extensive record keeping, annual Board of Directors and stockholders meetings and reporting of those meetings compared to other formations.

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Limited Liability Company (LLC)

An LLC combines aspects of a corporation with a sole proprietorship or partnership. Like a corporation, your personal assets are separate from the business and aren't at risk, while profits can flow through to your personal income and not be subject to corporate taxes.

It's always a good idea to consult an expert, such as an attorney, who can go into more detail about which structure may be most beneficial for your business. It's also a good idea to seek out the advice of a mentor to help guide you.

Here are four factors to consider when choosing a business structure.

• **Personal Asset Protection:** In sole proprietorships and partnerships, you can be held personally responsible for any liabilities incurred by your business. In LLCs and corporations, your personal assets are afforded a level of protection. This liability can be a major factor in which structure you choose.

• **Tolerance for Complexity:** Corporations are complex business structures that will most likely require help from lawyers and accountants to set up and properly maintain. You'll also need to comply with annual filing requirements with a corporation, whereas non-corporate structures are simpler.

• **Long-Term Goals:** If you plan to seek investments, become publicly

traded or bring on shareholders, then a corporate structure is a must.

• **Tax Implications:** As described above, profits are taxed differently depending on the business structure you choose. Consult a professional to help you determine which form of business gives you the most advantageous tax structure.

To learn more, contact SCORE "Counselors to America's Small Business." SCORE is a nonprofit organization of more than 11,000 volunteer business counselors who provide free, confidential business counseling and training workshops to small business owners. Call 610.327.2673 for the Pottstown SCORE chapter or find a counselor online at www.pottstownscore.org.