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Choosing the Right Legal Form for Your Business

Choosing the appropriate legal form for a business is one of the first issues most entrepreneurs face. It is an important decision at the formation stage and also as a business grows. Sole proprietorships usually are the easiest. Corporations offer some different advantages, but often with additional complexity.

This article addresses some of the pros and cons of different types of legal structures for businesses. Even if your business has been in existence for a while, it may be time to review your options. There can be many complexities in determining the best legal structure and a qualified attorney may be of value when evaluating your choices.

At a minimum, consider the following issues when evaluating the business structure decision:

- Number of owners
- Personal liability of owners
- Tax treatment
- Control and management
- Capital contributions

Here is a chart that provides some of the basic information to consider.

Business Structure Alternatives						
Issues to consider	**Sole proprietorship**	**C Corporation (Regular corporation)**	**S Corporation (Sub-chapter S corporation)**	**General partnership**	**Limited partnership**	**Limited-liability company (LLC)**
Ownership rules	One owner.	Unlimited number of shareholders with no limit on the classes of stock.	Up to 75 shareholders are allowed. Only one class of stock is allowed.	Unlimited number of general partners.	Unlimited numbers of general and limited partners are allowed.	Unlimited numbers of "members" are allowed.
Liability of owners	Unlimited liability for obligations of the business.	Generally, no personal liability for obligations of the corporation.	Generally, no personal liability for obligations of the corporation.	All general partners are fully liable for obligations of the business.	Unlimited liability for the general partners and no personal liability for the limited partners.	Generally, no personal liability for obligations of the entity.
Tax treatment	Entity is not taxed, all income and losses passed through to owner.	Corporation is taxed at the corporate level. Shareholders are taxed on any	Entity is not taxed; profits and losses are passed through to the shareholders.	Entity is not taxed, all income and losses passed through to partners.	Entity is not taxed; profits and losses are passed through to the general	Entity is not taxed; profits and losses are passed through to the

		dividends received.			and limited partners.	members.
Control and management	Sole proprietor manages the business.	Board of Directors has overall management responsibility with officers having day-to-day responsibility.	Board of Directors has overall management responsibility with officers having day-to-day responsibility.	General partners have equal management rights unless they decide otherwise.	General partner manages the business subject to the Limited Partnership Agreement.	The Operating Agreement describes how it to be managed. A Manager is usually designated to manage the business.
Capital contributions	Sole proprietor makes any capital contributions as needed. Easiest.	Shareholders usually buy stock in the corporation. Corporation can issue common and preferred stock.	Shareholders usually buy stock in the one class of stock issued by the corporation.	General partners contribute money or services to business and receive interests in profits and losses.	Both general and limited partners contribute money or services and receive interests in the profits and losses.	The members typically contribute money or services to the LLC and receive an interest in the profits and losses.
Ease of establishing	Easiest.	Must file Articles of Incorporation with the Secretary of State.	Must file Articles of Incorporation with the Secretary of State.	No filing. But a partnership agreement is needed.	File an application with the Secretary of State.	File Articles of Organization with the Secretary of State.