Business Structure - Pros & Cons

Structuring for Success

There's a lot to consider in starting your own business: developing a business plan, obtaining sufficient funding, marketing and a host of other concerns. Also critical is determining the organizational structure that best suits the business, because it will impact operating efficiency, the way you report income, the taxes you pay and your personal liability. There are four basic types to choose from:

- **Sole Proprietorship**
- **Partnership —** General and Limited
- **Corporation —** S Corporation and C Corporation
- **Limited Liability Company (LLC)**

To make an informed decision, you must consider income tax law and tax rates, as well as issues such as transferability, control and potential legal liability. These matters likely will be complicated, and errors can be costly. That's why it's important to do research and seek out the advice of **Peter Deng & Associates,** a leading tax, accounting, and business consulting firm in twin cities to serve minority businesses. We can help you understand how business structure impacts your organization's bottom line.

The following are some basic pros and cons of each entity structure:

Sole Proprietorship

Pro
Inexpensive to start and simple to run
One level of tax on net income
No separate tax return

Cons
Unlimited personal liability
Ownership limited to one person

Partnership

Pros
Ownership not limited to one person
One level of tax on net income
Income and expenses allocation is unrelated to percentage of ownership

Cons
Unlimited personal liability
Each partner legally responsible for the business acts of other partners
Requires separate tax returns

S Corporation

Pros
Limited personal liability for shareholders
One level of tax on net income possible

Cons
Requires separate tax returns
Restrictions on adding investors
Income and expenses must be allocated according to percentage of ownership

C Corporation

Pros	Limited personal liability for shareholders Easy to transfer ownership/add investors Perpetual continuity presumed
Cons	More costly to set up and maintain Requires separate tax returns Net earnings may be double taxed

LLC

Pros	Limited personal liability for members All members can participate in management Income and expenses may be allocated in a manner unrelated to percentage of ownership
Cons	Not automatically perpetual like S or C corps More costly to set up and maintain

Please consult us for all your business concerns, including your questions about the best way to address the unique needs of your business.