

WHICH LEGAL ENTITY STRUCTURE IS BEST FOR YOUR BUSINESS

Determining the legal structure of your business is one of the most important business decisions you'll ever make. This decision can significantly impact the security of your business as well as its profitability; the type of business you're in can help you determine which entity to choose.

Sole Proprietorship

If you're a single owner or a married couple just starting up, a sole proprietorship is the simplest business structure. If you work from your home, have no employees, and don't require walk-in traffic, this may be your best option.

The best types of businesses for sole proprietorships are those with limited liability, such as internet sales, housekeeping services, medical transcription, and so forth. The income from a sole proprietorship can be reported on the Schedule C and the self-employment tax is reported on Schedule SE for Form 1040 for personal income taxes. Income is taxed at the personal rate, and losses can be carried forward.

Partnership

If you have a partner to whom you're not related, you may not be able to have a sole proprietorship. In this case, a partnership is your best option. It's always advisable to have a legal document detailing the responsibilities of each partner, both physical and monetary. There are four types of partnerships.

General partnership: Both/all parties share equally in the investment, the profitability, the management, and the liability of the business.

Limited Partnership: Limited partners are involved only to the extent of their investment and are not involved in the day-to-day activities. A limited partnership offers you more legal protection than does a general partnership.

Limited Liability Partnership: This type of partnership is usually used when one of the partners must be licensed by the state, such as an attorney or a doctor. There's more latitude in management duties, and the protection offered is similar to the protection offered a corporation.

Limited Liability Limited Partnership: This relatively new type of partnership consists of at least one general partner and one limited partner. The general partner is responsible for day-to-day management, the limited partner is connected only by an investment in the partnership.

Partnerships are ideal for smaller companies that don't wish to incorporate.

Limited Liability Company

An LLC is a combination of a corporation and a partnership. It's similar to a partnership for day-to-day involvement and income benefits but offers protection similar to a corporation. The tax ramifications are different for an LLC and a corporation and you should consult with an attorney before making a final decision.

To learn more about LLCs, [click here](#).

Corporation

A corporation is its own entity and is best used if you have a company that can incur significant liability, such as a general contracting company. A corporation can be sued to the extent of its assets but members or stockholders are protected. The corporation pays its own taxes. Any wages paid to its employees or stockholders are claimed on their personal income tax return and taxes are paid accordingly.

Please note that the information above is just general material for consideration by employers and business start-ups, but is not intended as legal advice. To learn more, [click here](#).

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