BUSINESS FORMATION CHECKLIST

It is important to know what you want out of your business, out of your legal structure, and out of the people you bring onboard to your company so that you aren't too influenced by outside interests that don't align with your own. Read on to get a better idea of which business formation is right for you so you can make the best decision possible when forming a legal entity.

SOLE PROPRIETORSHIP

- Little, to no, legal work
- No protection from business liabilities
- Personally responsible for the revenues and debts of the business
- Report all business income as personal income, and pay taxes accordingly
- No provisions for additional shareholders - difficult to attract investors
- Option to file as a DBA, or "doing business as," so that the legal name of your business is different from your personal legal name

LIMITED PARTNERSHIP

- Two or more people teaming up, each with different desired levels of involvement and responsibility
- At least one General Partner, who has management authority, and essentially runs the day-to-day operations of the business
- The general partner has personal liabilities tied to those of the business
- At least one Limited Partner, often referred to as the LP, is a passive investor in the company, and has no legal authority to run the business day-to-day
- Good for investors. Limited Partners can invest cash, but still completely protect themselves from the personal liabilities associated with the business. Investors only stand to lose is the exact amount of cash they put into the business.
- Pass-through taxation - the partners only get taxed once on their share of income, instead of getting taxed a second time in the form of taxes on business profits.
- A Limited Partnership can outlive some of its members; Limited Partners can leave the business at any time without having to dissolve the partnership, but if a General Partner leaves, then the whole relationship needs to be dissolved.

LIMITED LIABILITY PARTNERSHIP

- Business structures that have more than one partner
- Attractive to business professionals
- All of the partners in an LLP share some level of management decision-making and ownership of the business—but by forming an LLP, they are not responsible for the debts incurred by the business, or by malpractice performed by one of their other partners.
- LLPs are usually made up of teams of licensed professionals (think lawyers or accountants), and some states even require that you be a licensed professional to form an LLP in the first place.
- Limited Liability Partnerships function as "pass-through entities." Partners account for profits and losses on their individual tax returns, and the LLP does not pay additional income taxes.
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LLC

- Business entity that functions as a hybrid between a sole proprietorship and a corporation
- Members of an LLC are personally shielded from the company's debts
- LLC is a "pass through" entity for tax purposes
- LLC is often the preferred business structure for a small and growing business because of the combination of liability protection and operating flexibility.
- Significantly fewer operating and tax reporting requirements than Corporations
- LLC's include Operating Agreements, or LLC agreements, that outline the purpose of the business, and any roles and requirements of the members who make up the LLC.

CORPORATION

- Most attractive for fast growing tech startups, or companies with many investors.
- The business is its own legal entity / person, separate from that of its owners.
- The legal obligation of the officers of a corporation is to maximize profits.
- The business owners, referred to as shareholders, are not liable for debts or other claims against the corporation.
- A corporation can be classified as a C corporation or an S corporation, which impacts how they are taxed.
- C corporations are taxed twice; first on the net income the business earns while it remains inside the corporation, then again on the income when it is distributed to its shareholders.
- S corporations are pass-through entities for tax purposes.
- S corporations are popular with small businesses, but they only allow for up to 100 members.
- The stricter formalities of a C-Corporation give investors the knowledge they desire about how your company is run. This makes running a C Corporation a much more administrative-heavy and tedious task, but better for investors.

B-CORPORATION

- A for-profit business whose purpose is to maximize profits and to create general public benefit, defined as "a material positive impact on society and the environment."
- Taxed the same way as C-Corporations, but are required to be more transparent and accountable for their purpose-driven activities
- Management structure is the same as a C corporation, but officers of the corporation have a legal requirement to consider the greater public good in their decision-making in addition to maximizing profits.
- Nobody can really hold them accountable for benefit activity except for their share-holders
- The classification as a B-Corp is a more recent phenomenon, and provides more marketing and PR benefits than it does actual financial benefits.

NON-PROFIT

- May take time and effort to get your non-profit status approved
- Formally shields your personal assets from the charity's liabilities
- Qualify for private and public grants, low-cost postage rates and may be exempt from income, sales and property taxes
- Only a formal nonprofit can allow for people to make donations without paying taxes. Allowing for tax-deductible donations will infinitely improve your ability to fundraise.
- Make sure to apply for a federal tax exemption with the IRS. The federal tax exemption grants you status as a 501(c)3 organization.