

Selecting the Right Structure for Your Business

One of the most important decisions that you will have to make as a business owner is how the company should be structured. Here are some tips to help you with your choice.

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SOLE PROPRIETORSHIP

- + Easiest and least expensive to organize and dissolve
- + Owner has complete control
- + Owner receives all income generated by the business to keep or reinvest
- + Profits from the business flow-through directly to the owner's personal tax return
- Owner has unlimited liability and is legally responsible for all debts of the business
- Often limited to using funds from personal savings or consumer loans
- Some employee benefits such as owner's medical insurance premiums are not deductible from business income for social security taxes

PARTNERSHIPS

- + Partnerships are relatively easy to establish
- + Ability to raise funds may be increased
- + Profits from the business flow directly through to the partners' personal tax returns
- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared with others
- Some employee benefits are not deductible from business income on tax returns
- Life of business may be limited. It may also end upon the withdrawal or death of a partner
- Partners may disagree

CORPORATIONS

- + Shareholders have limited liability for the corporation's debts or judgments against the corporations
- + Corporations can raise additional funds through the sale of stock
- + Life of business is unlimited
- + A corporation may deduct the cost of benefits it provides to officers and employees.
- + Can elect S corporation, which enables company to be taxed similar to a partnership but maintain liability protection of shareholders
- Requires more time and money to organize
- Monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations
- May result in higher overall taxes. Dividends paid to shareholders are not deductible for business income, thus this income can be taxed twice. (Unless S election is made -see above)

LIMITED LIABILITY COMPANY

- + Provides limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership
- + The duration of the LLC is usually determined when the organization papers are filed
- Formation is more complex and formal
- Because relatively new, lawyers have concerns of not having case history for potential future legal questions
- All earnings may be subject to Social Security tax



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Deciding how your company should be structured is a decision that will have long-term implications, so make sure you consult with an accountant to help you select the form of ownership that is right for you. For more information call (508) 757-3311, our Worcester Headquarters, or any of our offices and ask to speak to a partner.