COMMON BUSINESS STRUCTURES

SOLE PROPRIETORSHIP: A sole proprietorship is easy to form and gives you complete control of your business. You're automatically considered to be a sole proprietorship if you do business activities but don't register as any other kind of business.

Sole proprietorships do not produce a separate business entity. This means your business assets and liabilities are not separate from your personal assets and liabilities. You can be held personally liable for the debts and obligations of the business. Sole proprietors are still able to get a trade name. It can also be hard to raise money because you can't sell stock, and banks are hesitant to lend to sole proprietorships.

Sole proprietorships can be a good choice for low-risk businesses and owners who want to test their business idea before forming a more formal business.

LIMITED & LIMITED LIABILITY PARTNERSHIPS: Partnerships are the simplest structure for two or more people to own a business together. Partnerships can be a good choice for businesses with multiple owners, professional groups (like attorneys), and groups who want to test their business idea before forming a more formal business. There are two common kinds of partnerships: limited partnerships (LP) and limited liability partnerships (LLP).

Limited partnerships have only one general partner with unlimited liability, and all other partners have limited liability. The partners with limited liability also tend to have limited control over the company, which is documented in a partnership agreement. Profits are passed through to personal tax returns, and the general partner — the partner without limited liability — must also pay self-employment taxes.

Limited liability partnerships are similar to limited partnerships but give limited liability to every owner. An LLP protects each partner from debts against the partnership, they won't be responsible for the actions of other partners.

LIMITED LIABILITY COMPANY (LLC): An LLC lets you take advantage of the benefits of both the corporation and partnership business structures. LLCs protect you from personal liability in most instances, your personal assets — like your vehicle, house, and savings accounts — won't be at risk in case your LLC faces bankruptcy or lawsuits.

Members of an LLC are considered self-employed and must pay self-employment tax contributions towards Medicare and Social Security.

LLCs can be a good choice for medium- or higher-risk businesses, owners with significant personal assets they want to be protected, and owners who want to pay a lower tax rate than they would with a corporation.

C CORP: A corporation, sometimes called a C Corp, is a legal entity that's separate from its owners. Corporations can make a profit, be taxed, and can be held legally liable. Corporations offer the strongest protection to its owners from personal liability, but the cost to form a corporation is higher than other structures. Corporations also require more extensive record-keeping, operational processes, and reporting.

Unlike sole proprietors, partnerships, and LLCs, corporations pay income tax on their profits. In some cases, corporate profits are taxed twice — first, when the company makes a profit, and again when dividends are paid to shareholders on their personal tax returns.

Corporations have a completely independent life separate from its shareholders. If a shareholder leaves the company or sells his or her shares, the C Corp can continue doing business relatively undisturbed.

S CORP: An S corporation (Corp), sometimes called an S Corp, is a special type of corporation that's designed to avoid the double taxation drawback of regular C corps. S corps allow profits, and some losses, to be passed through directly to owners' personal income without ever being subject to corporate tax rates.

S corps must file with the IRS to get S Corp status, a different process from registering with their state.

There are special limits on S Corps. S Corps can't have more than 100 shareholders, and all shareholders must be U.S. citizens. You'll still have to follow strict filing and operational processes of a C Corp.

S Corps also have an independent life, just like C Corps. If a shareholder leaves the company or sells his or her shares, the S Corp can continue doing business relatively undisturbed.

S Corps can be a good choice for a business that would otherwise be a C Corp, but meet the criteria to file as an S Corp.

B CORP: A benefit corporation, sometimes called a B Corp, is a for-profit corporation recognized a majority of U.S. states. B Corps are different from C Corps in purpose, accountability, and transparency, but aren't different in how they're taxed.

B Corps are driven by both mission and profit. Shareholders hold the company accountable to produce some sort of public benefit in addition to a financial profit. Some states require B

Corps to submit annual benefit reports that demonstrate their contribution to the public good.

There are several third-party B Corp certification services, but none are required for a company to be legally considered a B Corp in a state where the legal status is available.

CLOSE CORPORATION: Close corporations resemble B corps but have a less traditional corporate structure. These shed many formalities that typically govern corporations and apply to smaller companies.

State rules vary, but shares are usually barred from public trading. Close corporations can be run by a small group of shareholders without a board of directors.

NONPROFIT CORPORATION: Nonprofit corporations are organized to do charity, education, religious, literary, or scientific work. Because their work benefits the public, nonprofits can receive tax-exempt status, meaning they don't pay state or federal taxes income taxes on any profits it makes.

Nonprofit corporations need to follow organizational rules very similar to a regular C corp. They also need to follow special rules about what they do with any profits they earn. For example, they can't distribute profits to members or political campaigns.

COOPERATIVE: A cooperative is a business or organization owned by and operated for the benefit of those using its services. Profits and earnings generated by the cooperative are distributed among the members, also known as user-owners. Typically, an elected board of directors and officers run the cooperative while regular members have voting power to control the direction of the cooperative. Members can become part of the cooperative by purchasing shares, though the number of shares they hold does not affect the weight of their vote.