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Business Entities

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Types of Business Entities

- Sole Proprietorship
- Corporation (S Corp & C Corp)
- General Partnership
- Limited Partnership
- Limited Liability Company
- Other (PC, PLLC)

Key Differences Among Entities

- Number and type of ownership
- Method for transferring ownership
- Personal liability of owners
- Method of management
- How the entity raises capital
- How the entity is taxed and how the owners are taxed
- Separation of ownership, control & profits

Sole Proprietorship (aka d/b/a)

Owners	One
Transferability	None, unless entire business sold
Liability	Unlimited personal liability
Management	Owner in complete control
Capital	Contributed by owner
Taxation	As individual (“pass through”)

Sole Proprietorship

Pros

- Simple, fast and inexpensive to establish
- Owner in complete control
- Easy
- Do it yourself

Cons

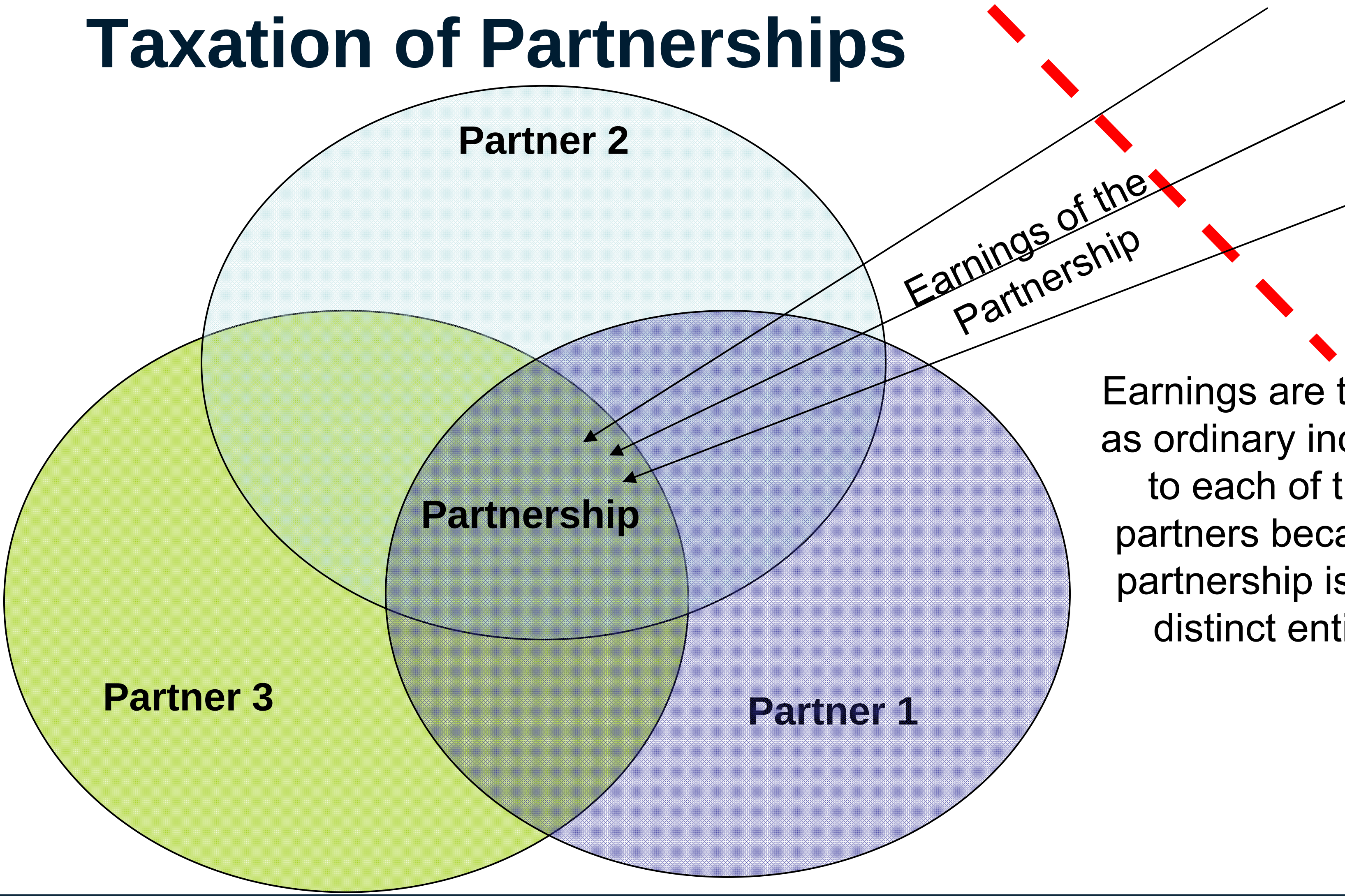
- Only one owner
- No way to segregate personal finances and assets with those of the business
- Unlimited personal liability
  - Claims
  - Taxes
- Hard to raise money
- No mental separation

General Partnership

Owners	Unlimited number of partners
Transferability	Generally none*
Liability	Partners personally liable – w/o limitation
Management	Partners have equal control*
Capital	Partners contribute and receive interest in profits & losses
Taxation	Entity not taxed; income and losses passed through to partners

* Unless the partnership agreement provides otherwise

Taxation of Partnerships



Earnings are taxed as ordinary income to each of the partners because partnership is not distinct entity

General Partnership

Pros

- Pass-through taxation
  - No double tax
  - Partners treat income and losses of the partnership as their own
  - Easy tax filing
- Each partner has rights in management
- Less expensive to form than corps
- Less formalities to follow and more flexibility in management form than corps

Cons

- Each partner has unlimited personal liability for the debts of the partnership
- Each partner may contractually bind the partnership
- Tax pass through
- No split between management and ownership and profits

Limited Partnerships

Owners	Unlimited number of general and limited partners
Transferability	Agreements usually are very restrictive*
Liability	Unlimited personal liability to general partner(s); no personal liability for limited partner(s)
Management	General partner(s) manages
Capital	General and limited partners contribute and receive interest in profits & losses*
Taxation	Entity not taxed; income and losses passed through to partners

* Controlled by the terms of the partnership agreement

Limited Partnership

Pros

- Protection from personal liability for passive investors (limited partners)
- Pass-through taxation (see general partnerships)

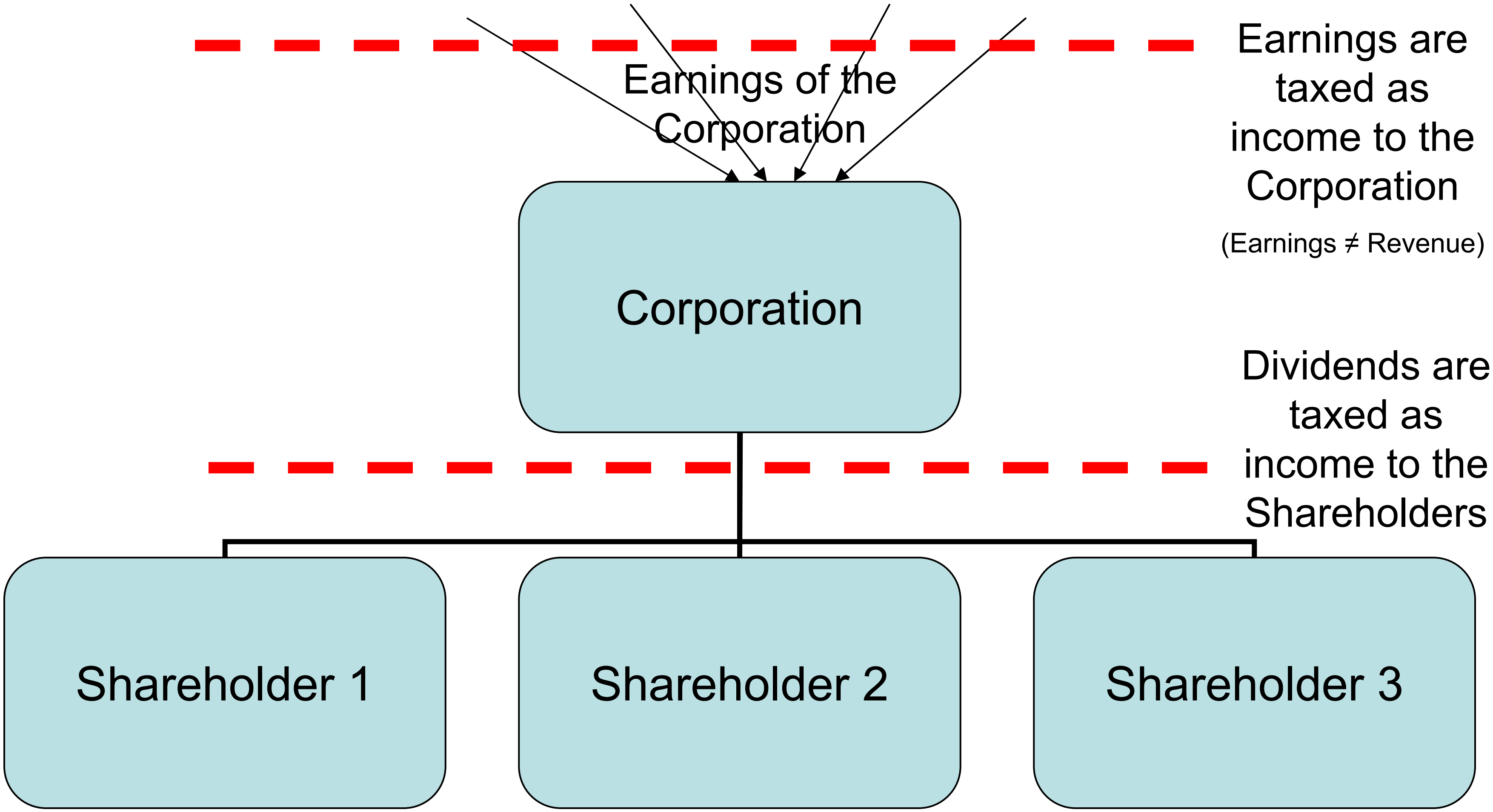
Cons

- General partners are only partners allowed to participate in management; limits on a limited partner's participation in the business
- General partners have 100% of the liability for partnership obligations
- More filing and procedural formalities than a typical general partnership
- Hard to raise money
- Hard to run Tech company

Corporation

Owners	Unlimited number
Transferability	Shares may be freely transferred (unless limited by shareholder agreement)
Liability	Shareholders typically not liable for debts of the corporation
Management	Officers and Board of Directors
Capital	Sale of shares of stock raise capital
Taxation	C Corp: Double tax: Entity may be taxed separately from shareholders S Corp: Taxed only once (like partnerships)

Taxation of Subchapter C Corporations



Shareholder's sale of stock may also be taxable!

Subchapter S Corporations

- S corps are traditional corporations that meet the above restrictions and file a form electing to be taxed under subchapter S
- Liability like corporation; taxed like partnership
- Strict Requirements:
  - Up to 75 shareholders
  - Only one class of stock

Corporation

Pros

- Insulation on from personal liability to owners (some exceptions)
- Ability to attract investors by offering sale of stock
- Established power and management structure with clear roles
- Board of Directors – recruit "part time" talent
- Officers ≠ owners

Cons

- Double tax (for C Corps)
- Incorporation process can be expensive and time-consuming
- All corporations are required by law to observe a number of corporate formalities
- Officers ≠ owners

Limited Liability Company

Owners	One or more members
Transferability	Depends on operating agreement
Liability	Members typically not liable for debts of the LLC
Management	Governed by operating agreement
Capital	Members contribute and receive interest in profits and losses
Taxation	Entity not taxed; income and losses passed through to members

Limited Liability Company

Pros

- Pass through taxation (like a partnership or S Corp)
- Provides liability protection from lawsuit judgments and business debts (like a corporation)
- Great deal of flexibility in determining management structure of the company (governed by agreement of the members)

Cons

- Not as familiar to some investors
- A bit more difficult to use vs. corporation after certain size is reached
- Publication requirements, not all states are the same

Other Business Entities

- Professional Corporations (PC)
- Professional Limited Liability Company (PLLC)

Formation of an Entity

- State and/or county filings (except national Bank and the Red Cross)
- Governing documents
  - Articles of Formation (Partnership, Corp., etc.)
  - Partnership agreement
  - Operating agreement (LLC)
  - Bylaws
- Registration to collect tax
- Additional licensing/registration issues (e.g., insurance agency licensing)

Thank you!

For additional information, contact your attorney and/or financial advisor.