



# Which business structure should we choose?

## Types of Business Entities

The type of business entity you choose will depend on three factors: liability, taxation and costs of record-keeping. The most common types of legal entities are:

Structure	Pros	Cons
<b>SOLE PROPRIETORSHIP</b>	<ul style="list-style-type: none"> <li>• Inexpensive to start and simple to run</li> <li>• One level of tax on net income</li> <li>• No separate tax return</li> </ul>	<ul style="list-style-type: none"> <li>• Unlimited personal liability</li> <li>• Each partner legally responsible for the business acts of other partners</li> <li>• Requires separate tax returns</li> </ul>
<b>PARTNERSHIP</b>	<ul style="list-style-type: none"> <li>• Ownership not limited to one person</li> <li>• One level of tax on net income</li> <li>• Income and expenses allocation can be unrelated to percentage of ownership</li> </ul>	<ul style="list-style-type: none"> <li>• Requires separate tax returns</li> <li>• Restrictions on adding investors</li> <li>• Net income must be allocated according to percentage of ownership</li> </ul>
<b>S CORPORATION</b>	<ul style="list-style-type: none"> <li>• Limited personal liability for shareholders</li> <li>• Business net income taxed as personal income of shareholders</li> </ul>	<ul style="list-style-type: none"> <li>• Requires separate tax returns</li> <li>• Net income may be double taxed More costly to set up and maintain</li> </ul>
<b>C CORPORATION</b>	<ul style="list-style-type: none"> <li>• Limited personal liability for shareholders</li> <li>• Easy to transfer ownership or add investors</li> <li>• Perpetual continuity presumed</li> </ul>	<ul style="list-style-type: none"> <li>• Requires separate tax returns</li> <li>• Net income may be double taxed</li> <li>• More costly to set up and maintain</li> </ul>
<b>LIMITED LIABILITY COMPANY (LLC)</b>	<ul style="list-style-type: none"> <li>• Limited personal liability for members</li> <li>• Income and expenses can be allocated in a manner unrelated to percentage of ownership</li> </ul>	<ul style="list-style-type: none"> <li>• Not automatically perpetual like S or C corps</li> <li>• More costly than a sole proprietorship to set up and maintain</li> </ul>

## Five Common Business Structures

- Sole Proprietorship
- Partnership
- S Corporation
- C Corporation
- (LLC) Limited Liability Company

## Business Entity Selection Criteria

