

BUSINESS ENTITIES

Every time a person tries to make money on his or her own, he or she is in business. One of the first decisions faced by new business owner is choosing the legal structure that will be most appropriate. The type of entity chosen will affect the operation of the business and the liability of the owners. Also, it is advisable to seek business and tax advice from an accountant and legal advice from your attorney before choosing a business structure.

Sole Proprietorship

- Simplest and perhaps the most common form of business structure
- The business is owned and controlled by one individual, called a “proprietor”
- The business has no existence apart from the owner
- The proprietor receives all the profits from the business
- The proprietor takes the risks of any losses
- Profits from the business are taxed as personal income to the proprietor
- Income and expenses are reported on the proprietor’s individual tax return

Partnerships

- General Partnership:
 - A legal entity, distinct from its partners, created by a contract between two or more persons who combine their efforts or resources in determined proportions and commercial benefit
 - A partnership can sue, contract and own property in its own name
- Limited Partnership:
 - A partnership in which certain partners have “limited liability for partnership debts”
 - Also has a “general partner(s)” who are responsible for the management and operation of the partnership

Limited Liability Company (LLC)

- An LLC is an unincorporated association that is a separate legal entity under state law
- It is neither a corporation nor a partnership, but has characteristics of each
- It can own property in its name, sue and be sued
- The owners of an LLC are not liable or responsible for the debts and obligations of the LLC

Corporations

- One of the most common and complex forms of business enterprise
- It is separate from its owners and is granted its own rights and duties by law
- It is owned by stockholders
- Controlled by the corporation’s Board of Directors
- Liable for their own debts and liabilities and pay their own taxes