

[MONOTELO] QUARTERLY

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WHAT IS THE BEST Business Structure for You?

When you operate a business, it is very important how you decide to initially structure that business. While a sole proprietorship is the easiest business to start and operate, not only will you miss out on tax strategies to lower what you pay the government, but you could find yourself personally responsible for the debts of the company if the company takes a turn for the worse. To avoid this risk, you can structure your business as a limited liability company, a limited partnership, or a corporation. These structures protect you from the debts of your company, hence creditors can't go after your personal assets. Once you choose a corporate structure, it is not easy to switch to another, so it is important that you weigh all your options before deciding.

LIMITED PARTNERSHIPS.

If your business is structured as a limited partnership, then all the profits and losses of the company will flow through to the individual returns of the owners, meaning there is no income tax at the business level. In a limited partnership, only the owners who are actively involved in the management of the business are personally liable for the debts of the company. Owners who are only financially involved in the company are not personally liable.

C-CORPORATIONS. This is the most common type of corporation, as there is no limit to the number of shareholders and it is easy to transfer ownership. One benefit of the C-corporation is

the ability of the managing owner to distinguish between income earned as a salary, and income earned as profits of the corporation, allowing them to only pay payroll taxes on a portion of the income. The major downside to the C-corp is what is referred to as double taxation, where the profits of the company are taxed first at the corporate level, and then again at the personal level as they are passed through to the owners.

S-CORPORATIONS. The main benefits to operating as an S-corporation, are that income is passed through the corporation without being taxed, and you can differentiate between salary and profits of the corporation. The S-corp provides the same benefits as the C-corp, without being subject to the double taxation of the C-corp. Another benefit to the S-corp over the C-corp, is when an S-corp is sold, the proceeds are treated as capital gains, which have more favorable tax treatment than ordinary income, which is how proceeds from the sale of a C-corp are treated. While there are requirements to qualify as an S-corp, such as no more than 100 owners, they can provide significant tax advantages over the C-corp.

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LIMITED LIABILITY COMPANIES.

Similar to an S-corp, an LLC provides the liability protection of a corporation, along with the pass-through nature of a partnership. An LLC, however, places no restrictions on the number of owners, the tradeoff being that all LLC members pay self-employment taxes on all income. LLC's also provide advantages upon dissolution as assets distributed to owners are not taxable until sold by the recipient.

For more information on the right business structure for you, please reach out to us at 800-961-0298.