

ORGANIZING YOUR BUSINESS

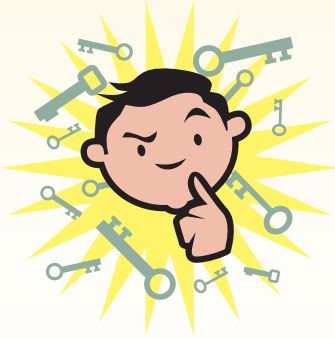
Legal Forms of Business Identities

Legal Structure

Advantages

Disadvantages

Sole Proprietorship



- Simple and inexpensive to create and operate:
 - Minimal startup and continuation costs
 - Minimal legal restrictions
- Sole ownership, control, and decision making
- Owner reports profits or loss on personal tax returns

- Unlimited liability; owner is personally liable for business debts
- Not a separate legal entity
- Continuity of business difficult upon illness or death of owner

General Partnership



- Simple inexpensive to create and operate
- Minimal legal constraints and reporting to government
- Allows for flexibility in management and business requirements
- Direct share of profits by partners
- Owners report profit or loss on personal tax returns

- Each partner is personally liable for all debts and liabilities of business
- Each partner acting alone has power to bind business and other partners to deals or contracts
- No beneficial employment tax treatment
- Continuity of business difficult upon death or withdrawal of partner

Limited Partnership



- A limited partnership has at least one general partner and one limited partner
- General partner controls company's day to day operations
- Limited partner's risk is diluted because they do not play an active role in business
- Good structure to raise equity capital
- Continuity of business without interruption upon death or withdrawal of limited partners may not cause dissolution of partnership
- Owners report profit or loss on personal tax returns

- Increased costs in organizing due to greater formality in setting up business
- Greater reporting requirements
- General partner is required to assume unlimited liability
- Death or withdrawal of general partner may cause dissolution of partnership

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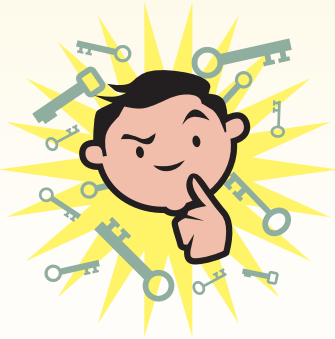
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C-Corporation



- Access to investment capital. No limitation on the number of shareholders or class of stock
- Owners have limited personal liability for business debts and tax liabilities
- Perpetual existence – corporations extend beyond death or illness of owners
- Owners can deduct fringe benefits as business expense
- Reduction in overall tax rate - owners can split corporate profit among owners and corporation.

- Expensive to create and operate
- Statutory formalities must be observed for decision making and action
- Control is vested in board of directors and not share holders
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- Regular reporting to government
- Taxation:
 - Double Taxation
 - No beneficial employment tax treatment
- Dissolution of corporation is expensive

S-Corporation



- Clients have less risk from government audits
- Owners have limited personal liability for business debts and tax liabilities
- Owners can use corporate losses to offset income from other status
- Owners can save on employment taxes by taking distributions instead of salary

- Expensive to create (requires articles of incorporation and an operating agreement like a partnership)
- Regular reporting requirements to government
- Securities laws apply
- New legal entity - many undecided legal and tax issues

Limited Liability Corporations



- Owners have limited liability for business debts if they participate in management
- Perpetual existence (if elected) - not affected by death or disability of any member
- Option on method of taxation - corporate or personal tax returns
- Flexibility in raising capital through sale of securities (classes of membership interest)
- NM allows for single member LLC, where some states don't recognize

- Expensive to create (requires articles of incorporation and an operating agreement like a partnership)
- Regular reporting requirements to government
- Securities laws apply
- New legal entity - many undecided legal and tax issues

Source:

NOLO Law for All, www.nolo.com; SCORE, How to Really Structure Your Business: A Guide to Forming a Corporation or Limited Liability Company (LLC); Albuquerque SBDC, Finding Your Identity.