Small Business Entities

Different types of business entities available?

- Sole Proprietorships
- Partnerships
- Corporations
- Limited Liability Company (LLC)
- S Corporations
- Nonprofit Corporations

Why does it matter what entity my business is?

- Each different business entity listed above has advantages and disadvantages. Each varies drastically when it comes to an owner's personal liability, taxes, control, investments, income, and complexity.
- All such factors need to be looked at when trying to determine which business entity is right for you and enables your business the most advantages.

Sole Proprietorships

- Most common business organization.
- Easy to form, no formation documents required with the Secretary of State's office.
- Offers complete control to the owner.
- Business' profits and losses are carried through to owner's personal income.
- However, the owner is personally liable for debts incurred by the business.

Partnerships

General Partnership:

- "An agreement, expressed or implied, between two or more person who join together to carry on a business venture for profit."
- Easy to form, no formation documents required with the Secretary of State's office.
- Each partner shares in the profits and the losses of business.
- Profits and losses are "passed through" to the partners to report on their individual tax return.
- However, each partner is personally liable for the debts of the business, even debts incurred by the other partner in the business' name.

Corporations

- A corporation is a separate, legal entity from those stockholders who formed it.

- More complex than other business structures due to higher administrative, tax, and legal requirements.
- Formed under Nevada state law
- Corporations provide owners to have limited liability from the corporation’s debts.
- A corporation can enter into contracts, incur debts, and pay taxes apart from its owners.
- Ability to generate capital through sale of their stock.
- In some cases, corporations are taxed twice. First, when the company makes a profit, and again when dividends are paid to shareholders on their personal tax returns.

Limited Liability Company (LLC)

- Hybrid entity that allows the operational flexibilities and tax treatment like a partnership, while also providing the limited liability features of a corporation.
- Owners of an LLC are referred to as “members.”
- Typically, LLCs are not taxed as a separate entity. Profits and losses flow-through the business to the members of the LLC to report on their individual income.
- Less recordkeeping, registrations, and start-up costs than a corporation.
- However, an LLC does pass on self-employment taxes to its members.

S-Corporations

- An S Corp is a legal entity that operates under state law.
- An S Corp is a corporation that has elected a special tax status with the IRS that can eliminates the double-taxation that typically occurs with other corporations.
- Members of an LLC are subject to employment tax on their entire net income of the business, while only wages of the S Corp shareholder who is an employee are subject to employment tax. The remaining income is paid to the owner as a “distribution” and taxed at a lower rate.
- Provides limited liability to stockholders.
- Higher formation and ongoing expenses than some other business entities.
- An S Corp can have only one class of stock and not more than 100 shareholders.
- Closer scrutiny from IRS due to classification of income by business and its shareholders.

501(c)(3) Nonprofit Organizations

- Organizations that meet criteria under the Internal Revenue Code 501(c)(3) are eligible for federal and state exemption of corporate income tax.
- Once an organization has obtained 501(c)(3) status from the IRS, charitable contributions made to the entity are tax-deductible.
- Nonprofit organizations are allowed to solicit charitable donations from the public.
- Separate legal business entity that provides limited liability to the nonprofit’s Directors, Officers, employees, agents, etc.
- However, creating a nonprofit organization typically takes more time, effort, and money than other business entities.

- Nonprofits are required to keep detailed records and submit annual filings to the state and to the IRS in order to stay in compliance.
- Public has a right to see the nonprofit's finances and other business documents.