

Incorporate or not to Incorporate? (That is the question)

Regardless of their size, all businesses can benefit from incorporating. Advantages of forming a corporation or Limited Liability Company (LLC) include:

- **Personal asset protection.** Both corporations and LLCs allow owners to separate and protect their personal assets. In a properly structured and managed company, owners should have *limited liability* for business debts and obligations.
- **Additional credibility.** Adding "Inc." or "LLC" after your business name can add instant authority. Consumers, vendors, and partners may prefer to do business with an incorporated company.
- **Name protection.** In most states, other businesses may not file your exact corporate or LLC name in the same state.
- **Perpetual existence.** Corporations and LLCs continue to exist, even if ownership or management changes. Sole proprietorships and partnerships just end if an owner dies or leaves the business.
- **Tax flexibility.** Though profit and loss typically *pass through* an LLC and get reported on the personal income tax returns of owners, an LLC can also elect to be taxed as a corporation. Likewise, a corporation can avoid *double taxation* of corporate profits and dividends by electing Subchapter S tax status.
- **Deductible expenses.** Both corporations and LLCs may deduct normal business expenses, like salaries, before they allocate income to owners.

Should My Business Incorporate or Form an LLC?

Corporations and LLCs are both separate legal entities (business structures) that enjoy certain protections under the law and important benefits. Most people form a legal business structure to safeguard their personal assets.

Incorporating, or forming a Limited Liability Company (LLC), allows you to conduct your business without worrying that you might lose your home, car, or personal savings because of a business liability.

Form a corporation or LLC today to protect your personal property and save on taxes.

Decide Which Business Structure is Right for You

Before you begin the incorporation process, you will need to choose a business structure. Please review our Business Comparison Chart below for the advantages of forming a C Corporation, Subchapter S Corporation, or LLC.

Business Comparison Chart

	C Corporation	Subchapter S Corporation	Limited Liability Company	General Partnership	Sole Proprietor
Owners have limited liability for business debts and obligations	X	X	X		
Created by a state-level registration that usually protects the company name	X	X	X		
Business duration can be perpetual	X	X	X		
May have an unlimited number of owners	X		X	X	
Owners need not be U.S. citizens or residents	X		X	X	X
May be owned by another business, rather than individuals	X		X		
May issue shares of stock to attract investors	X	X			
Owners can report business profit and loss on their personal tax returns		X	X	X	X
Owners can split profit and loss with the business for a lower overall tax rate	X				
Permitted to distribute special allocations, under certain guidelines			X	X	
Not required to hold annual meetings or record meeting minutes			X	X	X

Selecting the Right Business Structure

To get the most out of your small business, choose the right structure. Selecting the right type of company for your new business helps maximize your chances of financial and operational success. Common business structures include:

C Corporations

- Independent legal and tax structures separate from their owners
- Help separate your personal assets from your business debts
- No limit to the number of shareholders
- Taxed on corporate profits and shareholder dividends
- Must hold annual meetings and record meeting minutes

Limited Liability Companies (LLCs)

- Independent legal structures separate from their owners
- Help separate your personal assets from your business debts
- Taxed similarly to a sole proprietorship (if one owner) or a partnership (if multiple owners)
- No limit to the number of owners
- Not required to hold annual meetings or record minutes
- Governed by operating agreements

Partnerships

- Partners remain personally liable for lawsuits filed against the business
- Usually no state filing required to form a partnership
- Easy to form and operate
- Owners report their share of profit and loss in the company on their personal tax returns

S Corporations

- Independent legal and tax structures separate from their owners
- Help separate your personal assets from your business debts
- Owners report their share of profit and loss in the company on their personal tax returns
- Limits on number of shareholders, who must be U.S. citizens or residents
- Must hold annual meetings and record meeting minutes

Sole Proprietorships

- Owner remains personally liable for lawsuits filed against the business
- No state filing required to form a sole proprietorship
- Easy to form and operate
- Owner reports business profit and loss on their personal tax return