**Notice**: This guide is for informational purposes only and does not provide legal advice or create an attorney-client relationship. You should contact an attorney to obtain advice with respect to any particular issue or problem.

## **Deciding on the Right Structure for Your Business**

Use this flow chart to help determine what structure is best for your business. By following the path of your answers to the questions below, you can see what considerations are important in creating and operating your venture.

Note: As a matter of best practice, Sole Proprietorships and General Partnerships should also segregate business bank accounts and records from personal bank accounts and records.

Does your business have more than one owner?

Note: Personal liability means that if the business cannot pay its financial obligations, creditors of the business can seek to recover what is owed to them from the business owners' personal assets, such as money in personal bank accounts, a car, and possibly a home.

Are you interested in eliminating personal liability for the obligations of the business AND

No

willing to maintain separate personal and business bank accounts, and keep separate records specifically related to the business? Are you interested in eliminating personal liability for the obligations of the business AND

willing to maintain separate personal and business bank accounts, and keep separate records specifically related to the business?

No \_

You may want to structure your business as a **Sole Proprietorship.**Sole Proprietorships have a single owner and do not require formal organization. For further information, please see our *Sole Proprietorship* legal guide.

Yes Yes

Is flexibility in business structure more important to you than seeking out and obtaining private investments for your business?

No

structure your business as a **General Partnership**.
General Partnerships have more than one owner and do not require formal organization.

You may want to

Yes (see next page)



No (see next page)







You may want to structure your business as a Limited Liability Company (LLC).

LLCs can have flexible operating structures. While some LLCs do have private investors, most investors generally prefer to invest in corporations.

Owners of an LLC do not have personal liability for the business's obligations, and the entity benefits from pass-through taxation. For further discussion on the income tax treatment of LLCs, please see our *Choice of Entity* legal guide.

Note: If a corporation satisfies and continues to meet certain requirements, it can elect to be an S-Corporation (S-Corp) for tax purposes. For example, to qualify as an S-Corp, the corporation can only have one class of stock, and generally, all stockholders must be individuals who are US citizens or residents. The business owners in an S-Corp do not have personal liability for the business's obligations, and S-Corps benefit from pass-through taxation (like LLCs). However, due to the requirements a corporation must meet to qualify as an S-Corp, most private investors cannot, or prefer not to, invest in S-Corps. For further discussion on the income tax treatment of S-Corps and LLCs, please see our *Choice of Entity* legal guide.





In order to be most appealing to private investors, are you comfortable adhering to increased business formalities such as creating company bylaws, electing a board of directors, and holding regular board and stockholder meetings?



You may want to structure your business as a **C-Corporation.** In a corporation, the business owners do not have personal liability for the business's obligations.

In a C-Corporation, there are two levels of taxation (1) corporate tax and (2) stockholder tax. For further discussion on the income tax treatment of C-Corporations, please see our *Choice of Entity* legal guide.

Looking for legal help?

Contact the Legal Food Hub to see if you qualify for free legal assistance!

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