Starting a Business

1. Forming a Corporation:

Anyone can form a corporation. A corporation's life begins when a document called the "Articles of Incorporation" (in some states the "Certificate of Incorporation" or "Certificate of Formation") is filed with the Secretary of State (or other appropriate state agency). A corporation usually has a president and secretary/treasurer and must have Articles of Incorporation. Some states also require bylaws.

2. S Corporation or C Corporation

A corporation has a choice of how it wants to be taxed. It can make the election at the beginning of its existence or at the beginning of a new tax year. The choices follow.

A. S Corporation

Formerly called a "Sub section S corporation," an S corporation pays no income tax and may only be used for small businesses. All of the income or losses of the corporation for the year are passed through to the shareholders, who report them on their individual returns. At the end of each year, the corporation files an information return, listing all of its income, expenses, depreciation, etc., and sends each shareholder a notice of his or her share as determined by percentage of stock ownership.

B. C Corporation

A C corporation pays taxes on its net earnings at corporate rates. Salaries of officers, directors, and employees are taxable to them and deductible to the corporation. However, money paid out in dividends is taxed twice. It is taxed at the corporation's rate as part of its profit, and then at the individual stockholders' rates as income, when distributed by the corporation to them.

3. LLC: Like a corporation, a limited liability company or "LLC," is a separate and distinct legal entity. This means that an LLC can get a tax identification number, open a bank account and do business, all under its own name.
One of the primary advantages of an LLC is that its owners, called members, have "limited liability," meaning that, under most circumstances, they are not personally liable for the debts and liabilities of the LLC. For example, if an LLC is forced into bankruptcy, then the members will not be usually be required to pay the LLC's debts with their own money. If the assets of the LLC are not enough to the debts and liabilities, the creditors generally cannot look to the owners for payment. Their debt was with the LLC, not the people that owned the LLC.

4. LLC or Corporation? The decision to form an LLC or a corporation is a common debate among business owners that deserves careful consideration. While both are excellent choices for personal liability protection, each entity offers its own set of distinct advantages. Choosing the right one for your company depends on your particular business, operational needs and tax strategy. Note that Corporations must hold regular meetings of the board of directors and shareholders, keep written corporate minutes and file a "pass-through" entity for tax purposes, much like a sole proprietorship or partnership. This means that LLCs avoid double taxation. Furthermore, an LLC owner is not required to pay unemployment insurance taxes on his or her own salary. However, an LLC can also elect to be treated like a corporation for tax purposes, whether as a C corporation or an S corporation.

5. For further information: Google “How to Start a Business”