Choosing the right business structure can help reduce personal risk and unnecessary paperwork but can also help your enterprise grow and flourish. However, there are essential factors to consider when selecting a business structure. Below are an overview of the different business structures and the unique benefits.

**Types of Business Structures**

Choosing the right business structure is critical to ensuring the long-term success of your business. Understanding the different structures and how they impact your business helps you make an informed decision when incorporating your business.

**Sole Proprietorship**

A sole proprietorship is the default business structure. In other words, all businesses are sole proprietorships until they indicate otherwise. With a sole proprietorship, you are the sole owner of the business assets and liabilities, which means there is no separation between the business entity and you as a person. As sole proprietor you are responsible for the debts and personal taxes.

**Partnership**

If you are starting a business with one or more people, that is considered a partnership. Business partners receive profits from the business. Most states require the partners to sign a partnership agreement to outline how profits are shared and how liability is distributed.

**Limited Liability Company (LLC)**

LLCs are a separate legal business entity that protects the business owner from personal liability, thus protecting personal assets. Each state has different rules and regulations relating to LLCs, so be sure to evaluate your state regulations. The administrative burden to forming an LLC is higher than a sole proprietorship, but you as the business owner will receive more personal protection. In addition, an LLC business structure requires different tax liabilities than a sole proprietorship.
Corporations

Corporations, among them all, are the most complex business structure. This type of business structure provides you with the most protection, but it requires more administrative work. Corporations are generally intended for larger businesses that need more liability protection.

There are a few different types of corporations that you should be aware of when considering this structure.

- **C corporations** can be owned by one or more individuals, which protects you from personal liability. They operate as their own legal entity and are subject to *double taxation*—that is, profits are taxed first at the corporate level and again at the individual level when dividends are distributed.

- **S corporations** are similarly structured to C corps, but profits are passed on to the owner’s personal income, which exempts you from paying corporate taxes.

- More information on the different types of corporations can be found [here](#).

### Business Structure Implications

Your business structure is the organizing legal framework for which the government recognizes your business. Selecting the right business structure has massive implications for business operations and administration. The most significant implications you need to consider are:

1. **Taxes**
   Your business structure will determine tax liabilities. Be sure to evaluate the different types of taxes (personal, business, self-employment, etc.) that come with each structure.

2. **Administration**
   Your business structure can, in part, determine the paperwork requirements. For example, required tax forms and frequency of filings is dependent on how your organization is structured.

3. **Liability**
   Business structure is the primary factor in determining liability. While an individual may be personally liable under some business structures, a Limited Liability Company mitigates owners’ personal damages in the event of litigation.

4. **Ownership**
   The business structure will outline who owns the business and is ultimately responsible for the business.

5. **Fundraising**
   A business’ ability to fundraise can determine the structure. Typically, lenders want to provide funding to LLCs or corporations. These types of business structures are sometimes seen as less riskier investments. If you are focused on receiving funding from an outside lender, be sure to understand the type of business structure they prefer. Depending on how a business is set up, an individual’s personal credit history may come into play when applying for credit.
Register and Incorporate Your Business

Once you’ve determined the best structure for your business, you must register your business with federal, state, and local governments to officially operate. Registering your business is a relatively straightforward and low-cost process.

Incorporation is the process of making your business a distinctive legal entity. It gives the business owner some protection, legally separating the owner and the business. Incorporating your business can be costly, labor-intensive and additional documentation based on your business structure and residing state; however, it can offer legal protection you need for peace of mind.

Be sure to consult with an attorney about which structure makes sense for your business and what local rules and regulations you should be aware of and follow. Similarly, speak with an accountant to better understand your local, state, and federal tax liability requirements. Review this guide to find the appropriate state or local agency.