

There Are a Variety of Ways to Structure a Corporation or LLC

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Based on their needs and intended business activities, entrepreneurs may choose from a variety of legal structures. The general, or "C," corporation continues to be the most common entity type, as it allows for an unlimited number of shareholders and usually limits a stockholder's liability to the extent of their investment in the company. The limited liability company (LLC), which combines the corporate advantage of limited personal liability with the pass-through taxation advantage of a partnership, is also gaining popularity.

But if a general corporation or LLC is not suited to your business needs, there are many options available for the formation of a new legal entity. Other types of corporations include:

Close Corporation

A close corporation is similar to a general corporation, but limits its number of shareholders to a maximum of 30. Many close corporations require that new stock be offered to existing shareholders before being offered to outsiders. Not all states permit this type of filing, but it may be appropriate for entrepreneurs who plan to start their business alone or with a small group of individuals.

Subchapter S Corporation

A general corporation that has elected a special tax status through the IRS is known as a "Subchapter S" corporation, or sometimes, "S-corp." A Subchapter S corporation is appropriate for business owners who wish for their corporation to have the pass-through taxation benefits of a sole proprietorship or partnership, as the profit and loss of the company flows through to the individual tax returns of its shareholders in proportion to their investment in the company.

Non-Profit Corporation

A non-profit corporation is an entity that has been organized for charitable, religious or scientific or educational purposes. In concurrence with the formation filing through the Secretary of State, non-profit entities also generally elect a tax-exempt status through the Internal Revenue Service.

Professional Corporation (PC)

A professional corporation is an entity type intended for businesses that require professional licensure—examples would be engineers, attorneys or physicians. Many states require proof of a license before the formation filing can be completed, and members must all belong to the same profession.

Professional Limited Liability Company (PLLC)

Like the PC, a PLLC is intended for state-licensed professionals who practice the same type of business. Not all states recognize Professional Limited Liability Companies as a legal entity.

Limited Partnership (LP)

Limited partnerships consist of limited partners, who normally contribute capital to the company and have limited liability to the extent of their investment, and general partners, who manage the

company and have unlimited personal liability for its debts. Limited partnerships allow companies to raise capital without involving outside investors, but partners can be held personally liable for the business, either wholly or to the extent of their contributions.

Limited Liability Partnerships (LLP)

Limited liability partnerships are used for professionals. Partners aren't personally liable for the malpractice of other partners. Partners report any profit or loss on their personal tax returns. Not all states offer this type of structure, and those that do often restrict its availability to certain professions, such as accounting or law.

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