

# BUSINESS STRUCTURES



	Description	Cost of Formation	Effort to Create Entity	Cost to Operate	Shield for Liability	Legal Resources Needed	Effort to Close Business	Decision Making Structure
<b>Sole Proprietorship</b>	A one-owner business. Without having a partner or incorporating, business is automatically a sole proprietorship.	Very low	Very low	Very low	None	None required for formation. Owner personally liable for business-related lawsuits.	Low	Sole proprietor has full control.
<b>Partnership</b>	A business with more than one owner is automatically a partnership unless incorporated differently.	Very low	Very low	Very low	None	None required for formation. Owner personally liable for business-related lawsuits.	Low	Owners specify in partnership agreement.
<b>Single Member LLC</b>	A one-owner business that is taxed like a sole proprietorship but limits liability.	Moderate	Moderate	Very low	Limited liability	None required for formation, though it may be beneficial.	Moderate	Sole owner has full control, unless specified otherwise.
<b>Multi Member LLC</b>	A business with more than one owner that is taxed like a partnership but limits liability.	Moderate	Moderate	Low	Limited liability	None required for formation, though it may be beneficial.	Moderate	Very flexible. Detailed in operating agreement.
<b>C Corporation</b>	Has legal existence distinct from its owners and is considered its own legal "person." C Corps pay taxes as corporate entities.	High	High	High	Limited liability	Recommended for formation.	High	Managed by shareholder-elected Board of Directors. Board appoints officers to run day-to-day affairs.
<b>S Corporation</b>	An S Corporation, or small business corporation, has legal existence distinct from its owners. Individual shareholders split up S Corp's tax burden.	High	High	High	Limited liability	Recommended for formation.	High	Managed by shareholder-elected Board of Directors. Board appoints officers to run day-to-day affairs.
<b>Close Corporation</b>	A smaller corporation able to operate without the strict formalities required of a corporation.	Very high	Very high	Moderate	Limited liability	Recommended for formation. Required for shareholder agreement.	Moderate	Shareholders and directors operate like a partnership. Shareholders can override.
<b>Benefit Corporation</b>	Has same legal structure as a C Corporation but allows business to consider profit as well as society and the environment through public purpose.	High	High	High	Limited liability	Recommended for formation.	High	Managed by Board of Directors. Benefit Principles affect decision making. Benefit Director required.
<b>Benefit Company</b>	LLC version of Benefit Corporation; new structure in PA as of 2/2017. Benefit companies share some, but not all, requirements with Benefit Corporations.	Moderate	High	Moderate	Limited liability	Recommended for formation.	Moderate	Very flexible. Benefit Principles affect decision making. Benefit Director not required.
<b>Nonprofit</b>	Organization with a mission to serve the public interest that has filed incorporation papers with the state.	Very high	Very high	Moderate	Limited liability	Recommended for formation.	High	Executive Director reports to Board of Directors which makes decisions.
<b>Cooperative</b>	A business owned and controlled by members. Customizable structure - can be non-profit or for-profit business.	High	Very high	Moderate	Limited liability	Recommended for formation.	Depends on structure	Members are part owners, role varies depending on type of cooperative.



# BUSINESS STRUCTURES , CONTINUED



	Role of Board in Organization	Ownership and Equity	Owner Pay	Tax Issues	Employment Taxes	File Annual Report with State	Audit Required
<b>Sole Proprietorship</b>	NA	Sole proprietor owns whole company.	Owner is not employee, paid through draws.	Profit or loss reported on personal tax return. Quarterly self-employment taxes, file Schedule C with taxes.	Owner pays self-employment taxes on income after all expenses.	No	None
<b>Partnership</b>	NA	General partnership default is equal.	Partners not employees, paid through draw.	Profit or loss reported on partners personal tax returns.	Partners pay self-employment taxes on income after all expenses.	No	None
<b>Single Member LLC</b>	Optional. Management structure can include board or not.	Sole member owns whole company.	If pass through tax election, paid by draws. If S or C Corp, paid as employee.	Can be taxed as pass-through entity like sole proprietorship or as an S Corp or C Corp.	Member pays self-employment taxes if not S Corp or C Corp.	No. Annual registration fee unless restricted LLC.	None
<b>Multi Member LLC</b>	Optional. Management structure can include board or not.	Detailed in operating agreement. Owners are "members."	If pass through tax election, paid by draws. If S or C Corp, paid as employee.	Can be taxed as pass-through entity like partnership or as an S Corp or C Corp.	Member pays self-employment taxes if not S Corp or C Corp.	No. Annual registration fee unless restricted LLC.	None
<b>C Corporation</b>	Board of Directors manages business, not required for small corps.	Sale of stock.	Shareholders paid as employees.	Taxed at entity level and for dividends.	Must withhold Social Security, Medicare, state payroll taxes from employee salaries. Fringe benefits deductible as business expense.	No	None
<b>S Corporation</b>	Board of Directors manages business, not required for small corps.	Sale of stock.	Shareholders paid as employees.	Shareholders report corporate income and losses. S Corp files informational return Form 1120-S.	Shareholders can deduct health insurance premiums from income tax as personal deduction.	No	None
<b>Close Corporation</b>	Board not required.	Limit of 30 shareholders. Limits on selling shares to outsiders.	If pass through tax election, paid by draws. If S or C Corp, paid as employee.	Cannot avoid corporate taxation like S Corps. Shareholders may have double-taxation of earnings on corporate and personal tax returns.	Must withhold Social Security, Medicare, state payroll taxes from employee salaries. Fringe benefits deductible as business expense.	No	None
<b>Benefit Corporation</b>	Board of Directors manages business.	Sale of stock.	Shareholders paid as employees.	Taxed at entity level and individual level for dividends.	Must withhold Social Security, Medicare, state payroll taxes from employee salaries. Fringe benefits deductible as business expense.	Yes, annual fee.	Annual Benefit Report
<b>Benefit Company</b>	Detailed in operating agreement.	Detailed in operating agreement. Owners are "members."	If pass through tax election, paid by draws. If S or C Corp, paid as employee.	Can be taxed as pass-through entity like partnership, or as S Corp or C Corp.	Must withhold Social Security, Medicare, state payroll taxes from employee salaries. Fringe benefits deductible as business expense.	Yes, annual fee.	Annual Benefit Report
<b>Nonprofit</b>	Board of Directors required.	Directors can't benefit from nonprofit.	Board is unpaid. Can hire Executive Director to run day to day.	Record and track restricted and unrestricted income. May need to pay taxes on revenues from activities unrelated to nonprofit mission.	Must withhold Social Security, Medicare, state payroll taxes from employee salaries. Fringe benefits deductible as business expense.	No	Obligatory annual financial audit
<b>Cooperative</b>	Board of Directors required.	Most cooperatives require member equity.	If pass through tax election, paid by draws. If S or C Corp, paid as employee.	Net earnings distributed to members as patronage refunds. Process varies depending on cooperative type.	Must withhold Social Security, Medicare, state payroll taxes from employee salaries. Fringe benefits deductible as business expense.	No	None



# BUSINESS STRUCTURES , CONTINUED



	Access to Capital	Role in Community	General Perks of Structure	General Drawbacks of Structure	Little Known Facts
<b>Sole Proprietorship</b>	See funding sources chart.	Varies depending on individual business.	Ease of formation.	Owner personally liable for business debts. No limited liability protection.	
<b>Partnership</b>	See funding sources chart.	Varies depending on individual business.	Ease of formation. Can be taxed as partnership or S Corp.	Owners personally liable for business debts. No limited liability protection. No beneficial employment tax treatment.	
<b>Single Member LLC</b>	See funding sources chart.	Varies depending on individual business.	Limits liability. Best for new small businesses; simpler and easier to run than corporation. As business earns more can transition to S Corp.	Can't save on self-employment taxes like S Corp does. 1099 needed from customers paying LLC more than \$600/year.	
<b>Multi Member LLC</b>	See funding sources chart.	Varies depending on individual business.	Limits liability. Flexible management structure. Best for small businesses. Once business earns more can transition to S Corp.	Can't save on self-employment taxes like S Corp does. 1099 needed from customers paying LLC more than \$600/year.	
<b>C Corporation</b>	See funding sources chart. Can offer stock.	Varies depending on individual business.	Limits liability. Can save on taxes. Shareholders can borrow up to \$10k from corporation free of interest.	Additional cost to form and operate.	
<b>S Corporation</b>	See funding sources chart. Can offer stock.	Varies depending on individual business.	Limits liability. Taxes simpler than for C Corp. Self-employment taxes paid on employee salary, but not on distributions from S Corp.	Additional IRS rules on who can establish S Corp and how it operates. Limit of 100 shareholders. No foreign owners.	
<b>Close Corporation</b>	See funding sources chart. Cannot make public offering of stock.	Varies depending on individual business.	Limits liability. Relaxed rules for governance. Shareholders have control over sale of shares to outsiders. Available in PA.	Additional cost to incorporate. Governed by both bylaws and shareholder agreement. Shareholders can override directors and act on their own. Not available in all states.	Shares have limited resale value. Can't make public offering of stock.
<b>Benefit Corporation</b>	Benefit corporation status can attract investors and speed up due diligence. Can offer stock.	Commitment to creating general public benefit.	Limits liability. Attract employees and customers interested in company's purpose. Can be more attractive to investors.	Additional cost to form and operate. In addition to C Corporation requirements, also needs Benefit Director. Not available in all states.	Any formal entity structure can undergo third party audit by Blabs to be independently certified as "B-Corp."
<b>Benefit Company</b>	Benefit company status can attract investors and speed up due diligence.	Commitment to creating general public benefit.	Limits liability. Attract employees and customers interested in company's purpose. Can be more attractive to investors. Easier to set up and run than Benefit Corporation.	Relatively new legal structure. Not available in all states.	Any formal entity structure can undergo third party audit by Blabs to be independently certified as "B-Corp."
<b>Nonprofit</b>	Eligible for grants, collect membership fees, collect tax-deductible individual contributions if 501(c)(3).	Exists to further mission in the public interest.	501(c)(3) status exempts from federal income tax and also makes donor contributions tax-deductible.	Difficult to achieve IRS nonprofit status. Other non-501(c)(3) nonprofit status does not allow tax-deductible contributions. Reporting required for grants.	Can not be involved with anything political. For list of other nonprofit types see IRS Publication 557 page 67.
<b>Cooperative</b>	See funding sources chart. Membership equity often required.	Strengthens communities by providing jobs, paying local taxes, and creating sense of ownership among employees.	Limits liability. Customizable. Can use similar incorporation process to non-profit or for-profit businesses, changing paperwork as required by law. Members get discounted goods or services.	Customizable depending on type of cooperative; may be more difficult to decide on details of business structure. More complex to manage shares, meetings, etc.	