

Business Legal Structures

Legal Structure	Cost and Ease to Establish	Liability of Owners	Continuity of the Business	Management Control	Ease of Raising Capital	Tax Implications
Sole Proprietorship	Least expensive. Simplest form to establish	Unlimited personal liability	No provision for continuity in case of death of proprietor	Owner has control over all management decisions	Borrowing by owner or from owner's personal assets	Owner pays taxes at the individual rate on net income of business
General Partnership	Minimal expense. Written or verbal agreement	Unlimited personal liability for each partner for any and all partnership debts	May be dissolved by death or withdrawal of general partner	Management by majority rule among partners	Borrowing or bringing in other partners	Each partner pays taxes at the individual rate on his or her share of net income
Limited Partnership	Statutory requirements usually include written agreement and statement of limited and general partners	Limited partner's liability limited to investment. General partner's liability unlimited.	Limited partner's death or withdrawal does not affect partnership. General partner's death or withdrawal can dissolve partnership.	Limited partners not allowed to participate. Management by majority rule among general partners.	Borrowing or bringing in other partners	Each partner pays taxes at the individual rate on his or her share of net income
Limited Liability Company	Statutory requirements include Operating Agreement and Articles of Organization	Limited to the amount invested.	Creates degree of continuity; continues despite death or withdrawal of member	Management by majority rule among members	Borrowing, other debt instruments, addition of members	Each member pays taxes at the individual rate of his or her share of net income
Corporation (C Corp)	Statutory requirements include Articles of Incorporation	Limited to the amount invested.	Creates degree of continuity; continues despite death or withdrawal of stockholder.	Board of directors elected by shareholders	Borrowing, other debt instruments, sale of stock	Pays taxes at the corporate rate
Subchapter S Corporation	Same as "C" corporation, plus must meet certain criteria (including no more than 100 shareholders)	Limited to the amount invested.	Creates degree of continuity; continues despite death or withdrawal of stockholder.	Board of directors elected by shareholders	Borrowing, other debt instruments, sale of stock	Each shareholder pays taxes at the individual rate of his or her share of net income