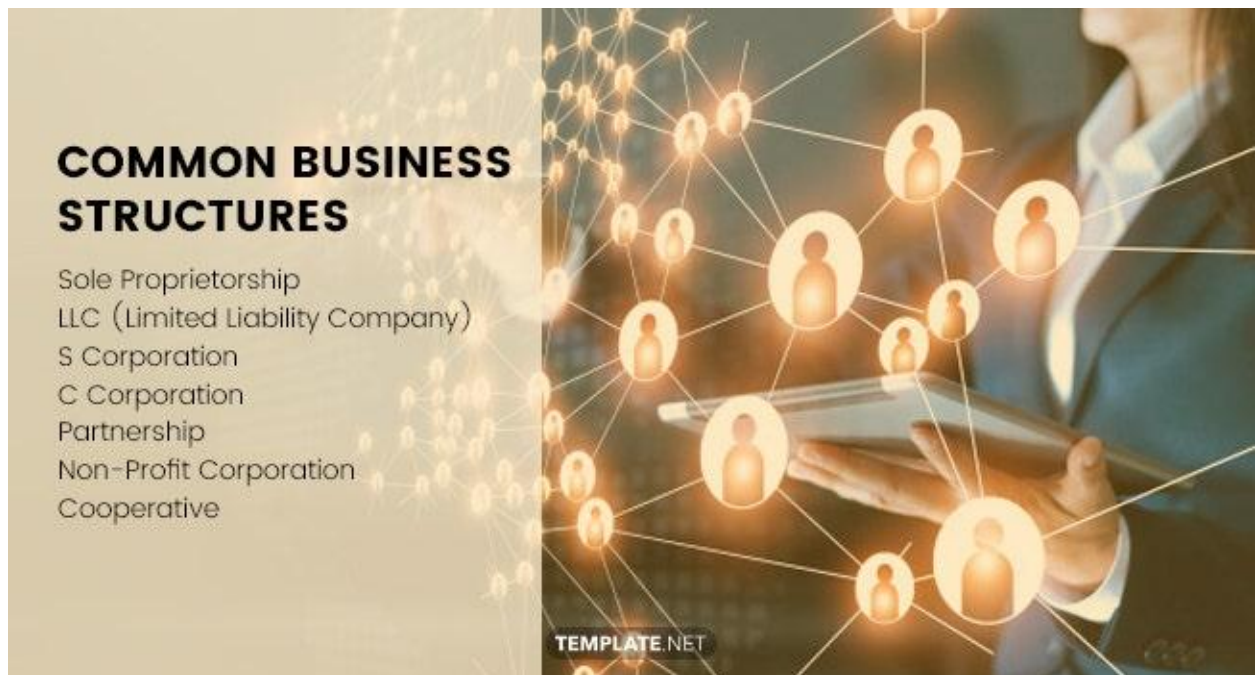


How to Choose the Right Business Structure - Types and Factors

From a pragmatic standpoint, what's best for business is also what brings the most benefits. To increase the likelihood of your strategies working, it pays to choose the right business structure. In doing so, you can enjoy benefits that fit best into your plans for the future. Although all have their pros and cons, knowing the right one to apply for specific conditions is crucial. Is this something you're well aware of? Or is this an area you need help in? Regardless of what your answers to those questions are, it's always nice to have a reminder of what the various business structures are and how to choose one.

Common Business Structures



Even with a strong foundation, a building won't rise tall without the right structure. The same can be said about companies. Without the proper framework, everything will be in shambles and nothing will work as it should. As you decide on the structure, it's good to be keenly aware of what details await you with each passing option. Dive right into those options and take a look at the following:

Sole Proprietorship

This is one of the more common business structures, especially among startups. No legal separation between the owner and the business takes place here, which leads to the owner's income and losses being taxed directly. Moreover, both the business and the owner have the same bank account, and circumstances such as addressing penalties, reimbursements, employee-accident situations, etc. will go straight to the owner's account. If your [business plan](#) pursues less dedicated expenses to the legal intricacies of big businesses, then this structure is suitable. And you pursue this structure, do remember that what you personally earn and lose is the same as your business.

LLC (Limited Liability Company)

Forging relations through partnership agreements are inevitable in every business. Achieving a better and bigger business requires support from other willing players, and LLCs follow the same direction. A LLC comprises a group of owners who band together under a name to have liability protection. The protection exempts the owners from being personally liable to the business's debts and liabilities, whereas a sole proprietorship takes both owner and business as legally one. Another feature is that taxation does not occur for an LLC, as it is not a corporation. However, [profit and losses](#) will appear in every owner's tax return under the assumption of fair accounting in all LLC members.

S Corporation

Being required to have 100 shareholders while getting taxed as a partnership is a crucial feature of an S corporation or an S Subchapter. This structure has to comply with internal revenue code requirements as a significant legal consideration. For safety measures, passing income to the shareholders is critical in evading taxation problems. One significant advantage of adopting an S Corporate structure is that your business has a stronger appeal to clients, customers, workers, and investors. The presence of assurance and stability is better compared to loose business entities with no back-ups and supporting units. More benefits arise when you save money on corporate taxes even though both owners and the business are the same.

C Corporation

Taxation is an inevitable obligation for every business. But a distinction between owners and the business is crucial in getting the appropriate measures as taxation is different per entity. This structure pays taxes as a corporation through its earnings before a dividend distribution to all shareholders takes place. Since a legal distinction between shareholders and the business is in effect, legal obligations and liabilities will not serve as a personal obligation to any shareholder.

Partnership

Partnerships are a staple in business, and many would use another's help to get any business up and running. Income sharing and co-ownership are significant features in this structure. The extent of the gained benefits and even the degree of ownership will depend on partnership agreements. A common trading name is a requirement for a partnership, and inevitably, shared assets and liabilities are in place. Moreover, obligations such as debts are also the responsibility of the contracting or agreeing parties.

Non-Profit Corporation

A nonprofit corporation is a group of nonprofit organizations working together and having a business structure stressing no need to accumulate profits. Through this structure and their continued operations, not-for-profit organizations that are members of the conglomerate can file for recognition of tax exemptions.

Cooperative

Members have equal rights to vote even if investments vary between a cooperative. All members must participate to keep the business operational. Management is everybody's responsibility. However, the cooperative is a separate legal entity from its members. Thus, liabilities and other obligations are not answerable to the personal level by each member.

Factors to Consider While Choosing Business Structure



Choosing a structure will depend on your reasons. Whether you are pursuing optimal performance or earning profits, certain factors play roles in achieving your goals. The list below shows the top factors to always look into before committing to the desired structure.

Business Taxes

Include tax plans before settling with a structure to incorporate as each varies in exemptions and procedures. You have structures that distinguish legal identities between owners and the business itself that will absolve or derive taxes from either to the person or the business. Other structures offer a huge degree of tax exemption for nonprofit corporations and organizations as long as the group complies with honest accounting. And to whatever tax procedures work well for your industry's goals, then choose that structure. However, certain jurisdictions may differ in taxation proceedings.

Industry Type

Different industries depending on their size and network will require a particular structure. If it is a small business, then a sole proprietorship is an obvious choice as the operations are manageable. However, if companies are more prominent in scale and require support to expand, then organization structure should also be appropriate. And if you want to venture into partnerships, each industry has its [business risks](#), which you need to consider.

Personal Liability

How much protection do you need? Liabilities are inevitable, but if you are the daring debonaire to answer business obligations at a personal level, then make sure you are capable. Others would want to lessen their burden by entering into partnerships that absolve personal liability by resting accountability to the business itself. Gaining leverage and saving money are some benefits when you do not have to shell out personal income for company liabilities. And if this is your success strategy, then make sure you venture into the right structure.

Number of Owners

Envisioning a big corporation with almost a hundred shareholders or a small one with five is something to consider. The strength of your business lies in assuring customers, clients, and potential partners of the security of your business. And if you want to restrict dividends to a certain amount, then limiting co-ownership will matter.

Ability to Raise Money

[Starting a business](#) needs capital, and when business people come into an agreement to establish a new industry, the desired structure that allows sure [investment proposals](#) from all members counts. Primarily you want the business or corporation to thrive even if it is a nonprofit one. Also, that is why tax concerns are on the top of the list because it is one way to do an estimation of what a business can get.

Credibility

Before stepping into the fold, better ask yourself if the membership or partnership is worth it. Credibility from all shareholders is a crucial factor as you do not want to be involved in a messy situation. That is why, before even joining a group, do some background check first. Another aspect would be establishing a reputation within the business community. A rigid and functional structure can attract other potential [business partners](#) and clients. Plus, it would be fitting that whatever your structure

choice, you need to register your business and procure the necessary [license and permits](#) to operate.

Choosing the right business structure is critical in defining the success of your business. And if you are starting a business, include in your startup checklist the structures that need implementing. Moreover, grow your business as well by appropriately entering or breaking away from [agreements](#) or [contracts](#).