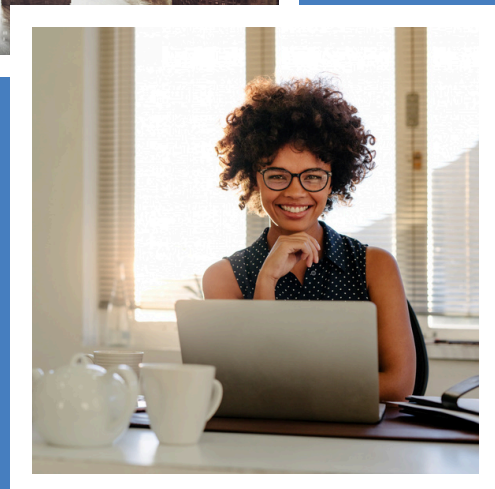


CHOOSING YOUR BUSINESS ENTITY: THE BASICS



CHOOSING YOUR BUSINESS ENTITY: THE BASICS

When starting a business, it is common to have questions such as how to protect your personal assets (e.g. your home), how the business pays taxes, and how to get money to grow the business. This guide provides a basic overview of the most common types of California business entities and key issues to consider when making decisions about which legal structure to choose for your business. We designed this guide as a starting point, and Public Counsel encourages readers to contact an attorney to answer questions specific to your business. If your small business needs legal help, **please contact us at (213) 385-2977, ext. 313 or visit us online.**

[CLICK HERE](#)

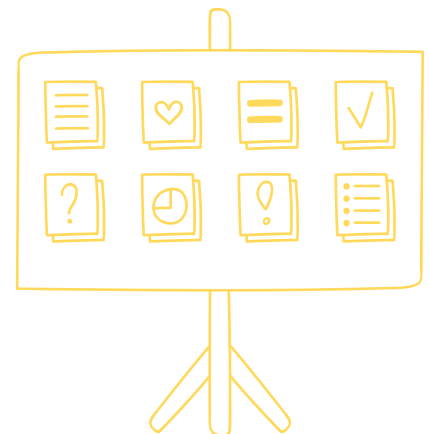


What is a legal entity?

A legal entity is a person, company, or organization that has its own legal rights and obligations. For example, a company has the right to enter into contracts and the obligation to pay debts it has incurred. The separate legal entity can sue and be sued. A legal entity will also have its own tax classification, which will vary depending on the type of legal entity selected. A legal entity is commonly referred to as a business entity.

How is a legal entity formed?

Many small businesses start out being owned and operated by one individual where the business does not exist separately from its owner – this is known as a sole proprietorship. In this case, the legal entity is the individual person who owns the business. However, the law provides business owners the ability to form a separate legal entity that will be treated as a new legal “person” that can own the business directly, with the individual continuing to own the business indirectly through that new entity. For example, Alice originally owned her bakery directly as a sole proprietor. She later formed an LLC, which now owns the bakery, and Alice owns the LLC.



What are the things to think about when choosing a business entity?

When choosing a business entity, you will need to think about your own personal preferences, your assets and liabilities, the current business size, and how the business might grow in the future. Choosing the right entity for your business can help your business to succeed as it grows and changes. You should also consider the below factors when choosing a business entity.

How is the business taxed?

Each type of business entity offers advantages and disadvantages for taxation, and some entities can choose how they want to be taxed. We will discuss this more below.



Liability and Risk Management

Most types of business entities offer the business owner protection from direct, personal liability for the business's obligations. In determining whether this protection is necessary for you, it is important to keep in mind that some businesses are more likely than others to give rise to lawsuits. For example, a business that rents out bounce houses will need to think about the potential for lawsuits arising from injuries to children more so than a homework tutoring business.

Administrative Burdens

While all businesses require some amount of record-keeping, some business structures require more record-keeping than others. For example, some business entities require regular meetings of a board of directors, the maintenance of board minutes, and more complicated tax filings. Business owners need to think about who can perform these tasks.



Management

The type of legal entity also determines who will manage the business and how it is managed. Some business entity types allow more flexibility, which may be attractive for business owners depending on the type of business and their preferences.

How attractive is it to investors?

All businesses need some money to make money. Some business entity types are more likely to attract money from outside investors than others because they can protect investors from liability, they are more commonly used for the type of business in question, and/or they make it easier for the investor to sell their interest in the business.

What are the steps to form and launch your small business?

1. Choose a business entity structure.

a. This guide explains some of the most common business entity structures, including: Sole Proprietorship, General Partnership, Limited Partnership, LLC, C- Corporation, S- Corporation, and Worker Cooperative.



2. Choose a legal name.

a. You can search for whether the legal name you want for your business is already being used by an entity formed or operating in California by visiting this [website](#).

You can also check whether another business has filed a trademark for the business name you want to use by searching for your proposed name on the United States Patent and Trademark's Office [website](#).

Further, you can check if a Fictitious Business Name (also known as a Doing Business As) for your proposed business name is already being used by visiting the Los Angeles County Registrar-Recorder's [website](#).

Finally, simply using an internet search engine such as Google to search for your proposed business name can alert you to other entities that may already be using that name.

3. Prepare and file organizational documents to register your business with the California Secretary of State.

a. The required documents vary by business entity type. The next section briefly covers administrative burdens of forming each type of business entity, and more information can be found on the California Secretary of State's [website](#).

4. Get an Employer Identification Number (EIN).

- a. Apply for an EIN through the IRS. [CLICK HERE](#)



5. If needed, register a Fictitious Business Name (FBN), also known as a Doing Business As (DBA), in the County where the business is located within 40 days of starting to use the DBA.

- a. This is necessary if the business is operating under a name different from the name it was registered as, and for sole proprietorships/general partnerships if the business name does not include the business owners' last name(s) and/or implies the existence of other owners (e.g. "& Company").



6. Get a business license.

- a. You should contact the business license department of the city/county where you will be operating a business in order to obtain a business license.

7. Get other permits and licenses as needed.

- a. You may need to apply for other permits and licenses at the state, county, or city level. For example, if you sell tangible goods, you will need to get a statewide seller's permit for sales tax purposes. Depending on the type of business, you may need other permits and licenses. **Visit** the state's database to learn what permits and licenses you might need in your area.

8. Open a business bank account.

- a. The bank may require proof of your business's information such as your EIN, name (including DBA), address, and organizational documents.



9. Get business insurance.

a. The main type of insurance you should consider is general liability insurance, which covers bodily injuries, property damage, and other losses that could occur as a result of the operation of your business. You will also need workers' compensation insurance if you have employees. You may want product liability insurance if you sell products or commercial automobile insurance if your business uses vehicles. Lastly, you may want to consider business interruption insurance coverage, which may compensate you for periods of business closure due to unforeseen circumstances. More information can be found [here](#).

10. Review your new business's legal needs

a. Examples of a business's legal needs include legal governance questions, drafting or reviewing contracts for vendors or clients, commercial leasing, employment or independent contractor agreements, intellectual property, etc. Contact an attorney or pro bono legal services provider like Public Counsel for assistance.



The State of California's [list for starting a business](#) may also be helpful.

WHAT ARE THE POSSIBLE BUSINESS ENTITIES YOU COULD CHOOSE FOR YOUR BUSINESS?

1. Sole Proprietorship



What is a sole proprietorship? A sole proprietorship is a business owned by one person without the use of a separate legal entity. In a sole proprietorship there is no legal difference between the owner and the individual: they are one and the same. A sole proprietorship forms by default when an individual opens a business, but does not choose another entity type. You may already be operating under a sole proprietorship without even knowing it.

Who is this kind of legal structure best for? Sole proprietorships can be a good choice for businesses with a low risk of being sued, or whose exposure to liability can be effectively managed with insurance, and owners who want to test their business idea on a relatively small scale before forming a more formal business.

How is a sole proprietorship taxed? Sole proprietorships do not involve a separate business entity so they have pass-through taxation. A sole proprietorship's business assets and liabilities are not separate from your personal assets and liabilities and the income from the business will be reflected on your annual personal income tax return.

How are liability and risk managed in a sole proprietorship? In a sole proprietorship, you can be held personally liable for the debts and obligations of the business. This means that someone can sue you for things that happen related to your business, such as injuries, broken contracts, and more. Sole proprietors may have to use their personal assets to pay the business's debts and legal obligations. A sole proprietor therefore risks losing all of their personal assets, sometimes including things like a savings account, car, or home, to pay for business debts and obligations. The owner has unlimited personal liability, although the financial risk can be lessened by purchasing insurance and creating strong contracts for the business.



Best Practice Tip: Speak with your insurance agent and ask about insurance coverage for your business, including cost, deductibles, limitations, and exceptions.

What are the administrative burdens of forming and operating a sole proprietorship? In a sole proprietorship, there are minimal compliance and formation costs. There are no requirements to file organizational documents with the California Secretary of State so the administrative burden is very low.

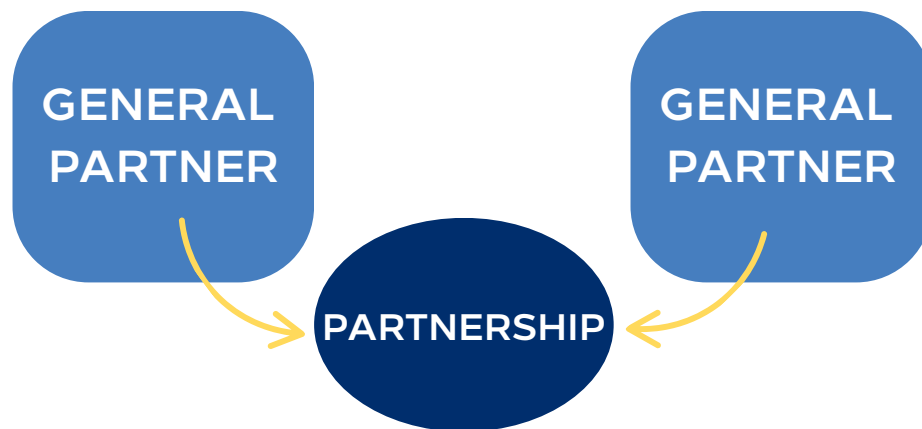


Best Practice Tip: FBN (also known as DBA) registration is necessary when a sole proprietor will be doing business under a name that does not contain the sole proprietor's last name or that suggests the existence of additional owners (e.g. "& Company").

How is a sole proprietorship managed? In a sole proprietorship, the owner is the same as the business, so the owner manages the business and has total control of the business.

Is a sole proprietorship attractive to investors? A sole proprietorship cannot have investors. If a business has more than one owner, which often happens when someone invests in the business, it is no longer a sole proprietorship; by default it becomes a general partnership.

2. General Partnership



What is a general partnership? A general partnership is a business entity where two or more people share ownership of a single business and share in the profits and losses of the business. A general partnership is formed automatically when two or more people open a business without choosing another entity type. The partners manage the business and are responsible for all debts and obligations of the business.

Who is this kind of legal structure best for? General partnerships can be an option for businesses with a small number of owners with low risk of being sued, or whose exposure to liability can be effectively managed with insurance, and where it has been decided that formation of a more formal legal entity is not worth the time, money, or administrative burden. Since it is easy to create a general partnership, they can be formed unintentionally, resulting in major liability risks for the individual partners who may not even realize they are in a general partnership.



Best Practice Tip: FBN (also known as DBA) registration is necessary when a partnership or other association is doing business under a name that does not contain the last name of each general partner or a name that suggests the existence of additional owners such as “& Sons,” “& Associates,” etc.

How is a general partnership taxed? A partnership must file an Annual Return of Income to report the income, deductions, gains, losses, etc. from its operations, but it does not pay income tax at the partnership level. Instead, the profits and losses “pass through” to the partners (whether or not the actual cash is distributed to the partners), with each partner reporting and paying taxes on their share of the partnership’s income or loss on their personal tax return. General partnerships can elect to be taxed as a C-Corporation or an S-Corporation (see below for descriptions of these business entities).



Best Practice Tip: Partners are not employees and should not be issued a Form W-2. The partnership must furnish copies of Schedule K-1 (Form 1065) to the partners.

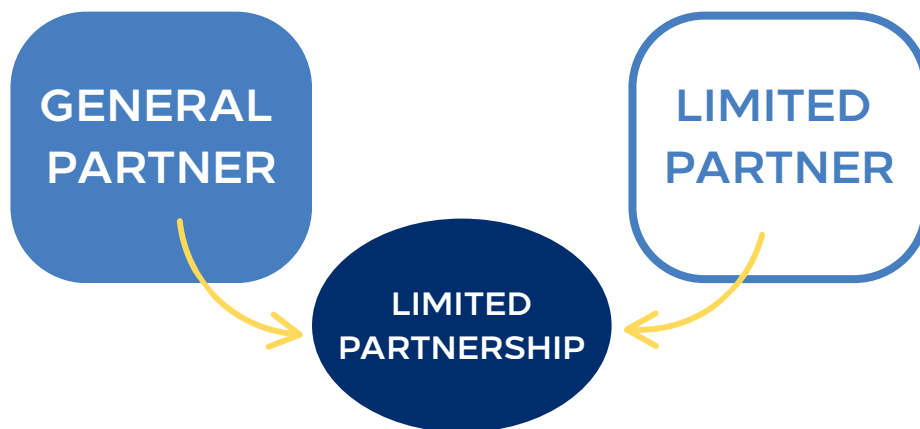
How are liability and risk managed in a general partnership? Each partner is “jointly and severally” liable for the debts and obligations of the business. This means that if there is a lawsuit against the partnership, money can be recovered from any of the partners regardless of their individual share of the liability. Partnership liability risks can be managed by purchasing insurance and creating strong contracts.

What are the administrative burdens of forming and operating a general partnership? A general partnership has minimal compliance and formation costs. However, in certain situations the administrative burden can be very complicated if the partnership has a complex partnership agreement.

How is a general partnership managed? Under the default rules of partnerships, partners have an equal right to manage and act on behalf of the partnership. A partnership agreement can limit one partner’s rights to manage. The details of this agreement should be written out formally to define the roles of each partner, including what would happen if the business fails.

Is a general partnership attractive to investors? A general partnership is unlikely to attract outside investment because it does not offer investors any protections from liability.

3. Limited Partnership



What is a limited partnership? A limited partnership is a partnership where there is at least one limited partner and one general partner. The general partner actively manages the business while the limited partner(s) must generally be passive with respect to the day-to-day management of the business.

Who is this kind of legal structure best for? Limited partnerships are often used for real estate investments and other investment scenarios involving passive investors.



Best Practice Tip: FBN (also known as DBA) registration is necessary when a limited partnership will be doing business under a name not stated in the Certificate of Limited Partnership filed with the California Secretary of State.

How is a limited partnership taxed? Limited partnerships are subject to pass-through taxation. Profits and losses pass through to the personal tax returns of the partners, and the general partner – the partner without limited liability who manages the partnership – must also pay self-employment taxes. A partnership must file an Annual Return of Income to report the income, deductions, gains, losses, etc., from its operations. Each partner reports their share of the partnership's income or loss on their personal tax return. Limited partnerships are subject to the annual \$800 minimum California franchise tax even if the business did not make any money. Limited partnerships can elect to be taxed as a C-Corporation or an S-Corporation (see below for descriptions of these business entities).

How are liability and risk managed in a limited partnership? Limited partnerships must have at least one general partner with unlimited liability, and all other partners may be limited partners with limited liability. Limited partners cannot play an active role in the management of the partnership.

What are the administrative burdens of forming and operating a limited partnership? To form a limited partnership, partners must file a Certificate of Limited Partnership with the California Secretary of State and pay a filing fee. Partners may also create a partnership agreement that summarizes the obligations of the partners and controls the operation of the business. In the absence of a partnership agreement, California law sets out the standard rights and responsibilities of each partner.

How is a limited partnership managed? Limited partnerships have both limited and general partners. The general partners operate the business, while the limited partners invest in the business but play a limited role in its management. A limited partner that actively manages the business can be reclassified as a general partner and thus lose their limited liability protection.

Is a limited partnership attractive to investors? A limited partnership is more attractive to investors than a general partnership or sole proprietorship because it provides investors with limited liability (assuming they join the partnership as limited partners).



4. Limited Liability Company



What is an LLC? An LLC mixes the features of a corporation and a partnership. Owners of an LLC are called “members.” An LLC may be owned by a single individual, several individuals, or business entities.

Who is this kind of legal structure best for? LLCs can be a good choice for businesses that have a medium to high risk of being sued, owners with significant personal assets they want protected, and owners who want to avoid the double taxation incurred by corporations.

How is an LLC taxed? Like partnerships, LLCs are subject to the same pass-through taxation described above. Actively involved members of an LLC must pay self-employment tax on their share of LLC profits. An LLC can elect to be taxed as a C-Corporation or an S-Corporation (see below for descriptions of these business entities). LLCs must also pay the annual \$800 minimum California franchise tax even if the business did not make any money. Moreover, LLC’s that make \$250,000 or more per year must pay an LLC fee. *Please note, a single-member LLC will be “disregarded” for income tax purposes and taxed like a sole proprietorship, meaning no separate tax return for the LLC is required at the federal level.

How are liability and risk managed in an LLC? An LLC provides limited liability for all of its members as long as the LLC formalities such as maintaining a separate bank account and signing documents in the name of the LLC rather than its owner(s) are properly followed.

What are the administrative burdens of forming and operating an LLC? To form an LLC, members of the LLC must file Articles of Organization with the California Secretary of State and pay a filing fee. Members of the LLC must also create an LLC operating agreement which sets out the rights and responsibilities of LLC members. An LLC's operating agreement sets out rules for the ownership and operation of the business, much like a partnership agreement or corporate bylaws.

Best Practice Tip: FBN (also known as DBA) registration is necessary when a LLC will be doing business under a name not stated in the Articles of Organization filed with the California Secretary of State.

How is an LLC managed? LLCs are either member-managed or manager-managed. The LLC operating agreement sets forth details regarding how the business is managed. Management is separate from ownership. In other words, a member who owns a 90 percent interest in a LLC could have no right to manage the LLC if that is what the operating agreement states. However, certain rights of the members of an LLC under state law cannot be modified by the operating agreement. The LLC may or may not have a board of directors.

Is an LLC attractive to investors? Investors are attracted to LLCs because LLCs offer management flexibility and limited liability. However, businesses that expect to "go public," meaning they wish to at some point sell shares of stock to the public, or that intend to seek institutional investors (like venture capital), may want to consider forming as a C-Corporation.

5. C-Corporation (C-Corp)

What is a C-Corp? A C-Corp is what is typically known as a "corporation." A corporation is treated as a separate legal person that files its own tax returns, can sue or be sued, and can own property. The "C" in C-Corp refers to the section of the Internal Revenue Code (subchapter C) that describes how the corporation is taxed, which is discussed in more detail below. Corporations designate ownership by issuing shares of stock. Owners are shareholders who have received or purchased stock in the corporation. The shareholder has a

right to a portion of the equity in the corporation, which is the value of the corporation's assets minus its liabilities. Also, the shareholder has a right to vote on certain matters.

Who is this kind of legal structure best for? A corporation is generally suggested for larger, more established companies with many employees. Corporations can be a good choice for medium- or higher-risk businesses, those that need to raise money, and businesses that plan to “go public” and be traded on the stock market or eventually be sold.

How is a C-Corp taxed? A C-Corporation is subject to “double taxation.” A C-Corp pays income tax on its profits as a separate entity. The owners (shareholders) then pay tax on any salary and other distributions (also referred to as “dividends”) received from the C-Corp.¹ That's why it is called double taxation. The annual income tax for C-Corps is the greater of 8.84% of the corporation's net income or \$800 (the minimum California franchise tax). California will waive the minimum franchise tax of \$800 for the first year a corporation exists. Instead, the 8.84% tax rate on net income will be applied, which may be less than the \$800 minimum a company would normally have to pay.

How are liability and risk managed in a C-Corp?

A corporation offers limited liability for all owners. Owners can only lose the amount they invested in the corporation, unless the owners have failed to follow corporate formalities of clearly treating the corporation as a separate legal person, such as not mixing up shareholder and corporate funds, holding board meetings, etc.

What are the administrative burdens of forming and operating a C-Corp?

Corporations can be more complex entities to create, have more legal and accounting requirements, and are often more complex to operate than sole proprietorships, partnerships, or LLCs. To form the corporation, the owners must file Articles of Incorporation with the California Secretary of State. Owners must also create bylaws to document the governance of the corporation, establish the role of the Board of Directors (“Board”), and hold an initial organizational meeting where shareholders elect the Board.



¹ Dividend is the distribution of a company's earnings to its shareholders.

How is a C-Corp managed? A corporation is managed by a Board, which is voted in by the shareholders. The Board then appoints officers to carry out the daily operations of the business. In small corporations, the managers, owners, and Board are often the same people. In larger corporations, those three roles are usually held by different people.

Is a C-Corp attractive to investors?

Yes, the corporation is attractive to investors because it provides limited liability to its stockholders, its governance laws are familiar and well-understood to investors, and because owners can transfer corporate stock more easily than ownership interests in other entities. Corporations have an advantage when it comes to raising capital because they can raise funds through the sale of stock.



SHAREHOLDERS
(Owners of the Corporation)



BOARD OF DIRECTORS
(Make Major Corporate Decisions)



OFFICERS
(Run day-to-day Operations)

6. S-Corporation (S-Corp)

What is an S-Corp? An S-Corporation is a regular state law corporation that makes a subchapter S election under the Internal Revenue Code. An S-Corp is designed to avoid the double taxation drawback of regular C-Corps.

Who is this kind of legal structure best for? An S-Corp is not suitable for a widely-held corporation because it can only have one class of stock with up to 100 stockholders all of whom must be individuals or eligible trusts for the benefit of individuals, and all stockholders must be U.S. citizens or resident aliens.



How is an S-Corp taxed? This structure is usually chosen for tax reasons. Unlike a C-Corp, in an S-Corp all business profits and losses pass-through to the owners, who report them on their personal tax returns (similar to a Sole Proprietorship or Partnership). The S-Corp must file an informational tax return to report each shareholder's portion of the corporate income. The annual income tax for S-Corps is the greater of 1.5% of the corporation's net income or the \$800 (the minimum California franchise tax). California will waive the minimum franchise tax of \$800 for the first year a corporation exists. Instead, the 1.5% tax rate on net income will be applied, which may be less than the \$800 minimum a company would normally have to pay.

What does it mean to elect S-Corp taxation? An LLC or C-Corp can also choose to be taxed like an S-Corp, meaning they would have pass-through taxation. In a corporation, an owner receiving a salary from the corporation is an employee of the corporation for tax purposes. The owner-employee is not self-employed because the business is distinct from its owners. Therefore, the owner-employee is personally responsible for only half of the employment taxes on his or her salary (the corporation pays the other half). In the case of an S-Corp, this means that although the corporation is taxed as a pass-through entity, employment taxes are paid only on amounts paid out as salary to the S-Corporation's owners, not on the business's excess profits (assuming the salary is sufficient to be considered "reasonable" by the IRS). One possible tax advantage of an S-Corp over an LLC is that while the owner-manager(s) of an LLC are subject to self-employment tax on all of their pass-through income,

the owner-employee of an S Corporation is subject to self-employment tax only on the amounts paid out to them as salary (assuming a minimum “reasonable” amount is paid out), not on their entire share of profits. It is best to speak with an attorney before choosing this structure because S-Corp formation has many restrictions.



How are liability and risk managed in an S-Corp? S-Corp owners have the same limited liability as C-Corp owners. Owners can only lose the amount they invested in the corporation, unless the owners have failed to follow the corporate formalities.

What are the administrative burdens of forming and operating an S-Corp? The administrative burden of an S-Corp is similar to that of a C-Corp, so it is quite a complex business type. Moreover, an S-Corp also must be careful to satisfy the S-Corp requirements such as only having one class of shares, no more than 100 shareholders, and only having allowable shareholders (shareholders may not be partnerships, corporations, or non-resident aliens), or it will lose its S-Corp status. To form the S-Corp, the owners must file Articles of Incorporation with the California Secretary of State. All shareholders/owners must make an S election. Owners must also create bylaws to document the governance of the corporation, establish the role of the Board of Directors (“Board”), and hold an initial organizational meeting where shareholders elect the Board.

SHAREHOLDERS
(Owners of the Corporation)



BOARD OF DIRECTORS
(Make Major Corporate Decisions)



OFFICERS
(Run day-to-day Operations)

How is an S-Corp managed? A corporation is managed by a Board, which is voted in by the shareholders. The Board then appoints officers to carry out the daily operations of the business. In small corporations, the managers, owners, and Board are often the same people. In larger corporations, those three roles are usually held by different people.

Is an S-Corp attractive to investors? Individual investors may be attracted to an S-Corp because it offers pass-through taxation and limited liability in a corporate form. However, owners should be careful when accepting new investors to ensure that they do not violate the S-Corp requirements.

7. Worker Cooperative



What is a cooperative? A cooperative is defined by Subchapter T of the Internal Revenue Code as an organization “operating on a cooperative basis.” Courts have held that “operating on a cooperative basis” means (1) democratic control by members: cooperative is governed by its members on a one-member-one-vote basis; (2) operation at cost: any money left over (beyond a reasonable reserve) after expenses are paid is returned back to the members; and (3) subordination of capital: with respect to control over the cooperative and ownership of the monetary benefits arising from the cooperative.²

What is a worker cooperative? A worker cooperative is a business or organization owned and operated by employees of the corporation. A worker cooperative is intended to be community-based, giving those whom the entity employs a direct say in the operation of the entity. Profits and earnings generated by the cooperative are distributed among the members, which also may be known as worker-owners.

Who is this kind of legal structure best for? A cooperative is the right legal structure when a business wants to be worker-owned. “Cooperative” may refer to a specific type of corporation, recognized under the law such as a Cooperative Corporation formed under the California Cooperative Corporation statute, or it may refer to the governance structure of the business. Therefore, the business has many choices for entity formation, including for example, forming as an LLC or a domestic stock corporation. However, the most commonly used entities for worker-owned businesses in California are the Cooperative Corporation and the LLC. More information on different ways to operate a cooperative can be [found here](#).



² Puget Sound Plywood v. Commissioner, 44 T.C. 305, 307-308 (1965).

How is a worker cooperative taxed? If the worker cooperative is formed as a Cooperative Corporation, members of the worker cooperative share in the profits based on “patronage,” which most worker cooperatives measure based on the number of hours each member works. The more “patronage” you have (for example, the more hours you work), the greater the profit-share to which you are entitled. A Cooperative Corporation avoids double taxation if profits are derived from members’ labor, paid out to the members as patronage refunds/patronage dividends, and the cooperative complies with other requirements of Subchapter T. If the worker cooperative is formed as an LLC, the worker cooperative is taxed as an LLC using pass-through taxation.

How are liability and risk managed in a worker cooperative? If the worker cooperative is formed as a Cooperative Corporation, shareholders have limited liability for the debts and obligations of the business, including liability for the unlawful acts of other shareholders and employees. If the worker cooperative is formed as an LLC, member-managers also have limited liability.

What are the administrative burdens of forming and operating a worker cooperative? Forming a Cooperative Corporation is moderately complex in terms of burden and cost. In general, the specific steps for forming a Cooperative Corporation will resemble those for forming a corporation. In addition to the normal steps required to form a corporation, forming a Cooperative Corporation will likely require deciding up front when and on what basis to distribute profits in the form of patronage dividends. To form a Cooperative Corporation, the initial directors will need to file Articles of Incorporation with the California Secretary of State and pay a filing fee. For LLC administrative burdens, see above.

How is a worker cooperative managed? If the worker cooperative is formed as a Cooperative Corporation, an elected board of directors and officers run the worker cooperative while regular members have voting power to control the direction of the worker cooperative. Members can become part of the cooperative by purchasing shares, though the amount of shares they hold does not affect the weight of their vote. Since the Cooperative Corporation has the ideals of “one member, one vote” embedded in its DNA, this ensures that worker-owners continue to own and control the business. If the worker cooperative is formed as an LLC, the worker-owners will be members of the LLC and can set up the structure of the worker cooperative how they choose.

Can a worker cooperative have investors? Yes, worker cooperatives are able to accept outside investment, with limited outside investor influence, ownership, and control. If a worker cooperative chooses to have non-worker or “investor” members, the cooperative may allow them only limited approval rights over decisions that may affect their investment, such as approval over a decision to sell off the assets of the cooperative or merge it with another cooperative. Non-worker members are not permitted to propose such a decision. More information about California law on investing in worker cooperatives can be [found here](#).



CHOOSING YOUR BUSINESS ENTITY: THE BASICS

BUSINESS STRUCTURE	OWNERSHIP	LIABILITY	TAXES (ASSUMES DEFAULT TAX TREATMENT)
Sole Proprietorship	One person	Owners are not protected from personal liability	Taxed the same as an individual: self employment tax and personal income tax.
General Partnership	Two or more people	Partners are not protected from personal liability	Pass-through taxation: self-employment tax and personal income tax on share of partnership income.
Limited Partnership (LP)	Two or more people	Limited partners are protected from personal liability but general partners are not	Pass-through taxation: self-employment tax (on income allocated to general partner) and personal income tax on share of partnership income. Limited Partnerships are also subject to the annual \$800 minimum state franchise tax.
Limited Liability Company (LLC)	One or more people	Members are protected from personal liability	Pass-through taxation: self-employment tax and personal income tax on share of LLC income. LLCs are also subject to the annual \$800 minimum state franchise tax, and LLCs with an annual gross income of \$250,000 or more are subject to an additional LLC fee.

CHOOSING YOUR BUSINESS ENTITY: THE BASICS

BUSINESS STRUCTURE	OWNERSHIP	LIABILITY	TAXES (ASSUMES DEFAULT TAX TREATMENT)
Corporation C - Corp	One or more people	Shareholders are protected from personal liability	Double taxation: corporate income tax and shareholders are also taxed on dividends received from the corporation. *Annual corporate income tax equal to the greater of (1) \$800 or (2) 8.84% of net income.
Corporation - S Corp	One or more people, but no more than 100	Shareholders are protected from personal liability	Pass-through taxation: self-employment tax on salary they receive from the business (a reasonable salary must be paid to owner-managers) and personal income tax on share of S-Corp income. *Annual corporate income tax equal to the greater of (1) \$800 or (2) 1.5% of net income.
Worker Cooperative	Two or more people who are also employees	Member-owners are protected from personal liability	For worker cooperatives formed as Cooperative Corporation, personal income tax at shareholder level only if profits are derived from members' labor, paid out to the members as patronage refunds/patronage dividends, and the cooperative complies with other requirements of Subchapter T. For worker cooperatives formed as LLC, see above under LLC.