

An Introduction to Business Structures

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MEYER CAPEL
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Choices, Choices, Choices...

- Sole Proprietorship
- Partnerships
 - General Partnership
 - Partnership with limited liability
 - Limited Liability Partnership
 - Joint Venture
- Corporations
 - Sub Chapter S Corporation
- Limited Liability Company

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Sole Proprietorships

- You are the Business
- You own the Assets
- You own the Income
- You own the Liabilities
- You own the Debt

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Sole Proprietorships

The Pluses

- Easy to start
- Cheap
- Complete control
- Direct Profits
 - One tax return
- Easy to stop

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Sole Proprietorships

The Minuses

- Growth and ownership transition
- Benefits may not be deductible
- Unlimited liability
- Access to capital difficult

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Sole Proprietorships

Taxes

- Federal and Illinois 1040
- Self-Employment Tax (Estimated tax)
 - Schedule SE and 1040 ES
- Profit/Loss from Business
 - Schedule C
- Depreciation & Amortization
 - Form 4562
- Home Business Expenses
 - Form 8829

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Partnerships

- 2 or more individuals own the business
- Owners are the business
- Partnership Agreement
 - % of ownership
 - Buy-out procedures
 - Dissolution procedures

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Special Partnerships

- General Partnership
- Limited Partnership
 - Partnership with limited liability
- Joint Venture

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General Partnerships

- Divided responsibility
 - Management
 - Liability
 - Profits/losses
- Written agreement controls
- Equal shares presumed

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Limited Partnerships

- Structure
 - Single controlling partner
 - One or more limited partners
- Limited Partners
 - Limited input on decisions
 - Limited liability
 - Only up to capital investment
- More complex
 - Agreement
 - Tax return

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Joint Ventures

- Limited by time
 - Usually include end date
- Similar to a general partnership
- Repeated activity
 - Establish a Partnership

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Partnerships

The Pluses

- Easy to start
 - Partnership Agreement can complicate it
- Easier to secure capital
- Profits flow personal taxes
- Ownership transition
- Growth of business
- Expands your value

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Partnerships

The Minuses

- Benefits may not be deductible
- Unlimited liability
 - Partnership and partners
- Profits must be shared
- Managing decisions

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Partnerships

Taxes

- Partnership return and partners share
 - Form 1065 and 1065K-1
- Self-Employment Tax (Estimated tax)
 - Schedule SE and 1040 ES
- Federal and Illinois 1040
- Depreciation & Amortization
 - Form 4562
- Supplemental Income & Loss
 - Schedule E
- 1.5% Replacement Tax

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Corporations

- Unique and separate from owners
- Separate entity
- Taxed
- Can be sued
- Can contract
- Shareholders = owners
- Directors oversee the company
- Easy ownership changes

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Corporations

The Pluses

- Limited shareholder liability
 - Debts
 - Judgments
- Access to capital
- Benefits tax deductible

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Corporations

The Minuses

- Process takes time
- It requires more resources
- Government has controls
 - Regulations
 - Reporting requirements
- Taxes
 - Corporation
 - Salary
 - Dividends

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Corporations

Taxes

- Corporate Tax & Estimated Tax
 - Form 1120
- Deposit Coupon
 - Form 8109-B
- Depreciation
 - Form 4625
- Illinois corporate taxes
- Other forms
 - Capital gains
 - Asset sale
 - Alternative minimum tax

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Subchapter S Corporations

- Special election for taxes purposes
- Earnings = distributions
 - Corporate earnings on personal tax return
- Must pay employee shareholders
 - Reasonable compensation
- 75 or less shareholders
- IRS scrutiny
 - Wages vs. distributions

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Subchapter S Corporations

Taxes

- Federal taxes and shareholder income
 - Form 1120S & 1120SK-1
- Depreciation
 - Form 4625
- Supplemental Income & Loss
 - Schedule E
- Self-Employment Tax
 - Schedule SE
- Individual Income Tax
 - Form 1040
- Capital gains, sale of assets, etc.

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Limited Liability Companies

- Partnership vs. Corporation
 - Corporate liability
 - Partnership taxes and flexibility
- Duration depends on Agreement
- Owners = members
- Operating agreement based

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L.L.C vs. Corporation

Only 2 of 4 allowed in L.L.C.

- Liability limited up to value of assets
- Continuity of life
- Centralized management
- Free transferability of ownership

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Limited Liability Companies

Taxes

- Most of the time, same as partnership
- Corporate forms may be required
 - More than 2 of the 4 corporate characteristics
- 1.5% replacement tax
- No income tax on the L.L.C.

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Registering your Business

- Secretary of State registration
 - Filing fee required
 - Sole Proprietorships & General Partnerships
- Department of Revenue registration
 - Provides a business registration kit
- Is your business regulated?
 - Illinois Department of Financial & Professional Regulation

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Do you need a lawyer?

- Depends on:
 - Your comfort level
 - Your business
 - Intricacy of the relationships
 - Size of the business
 - Level of risk

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Important Contacts

- Secretary of State web-site
 - www.sos.state.il.us
 - Contact info
 - Electronic forms
 - Business packets and information
 - Helpful FAQ sections

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Thank you for your Time

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