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Choose Your Business Structure

Sole proprietorship, corporation, LLC: Try them on for size to find out which legal structure will best suit your business.

Compiled by Laura Tiffany

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Of all the choices you make when starting a business, one of the most important is the type of legal structure you select for your company. Not only will this decision have an impact on how much you pay in taxes, it will affect the amount of paperwork your business is required to do, the personal liability you face and your ability to raise money.

Mark Kalish is co-owner and vice president of EnviroTech Coating Systems Inc. in Eau Claire, Wisconsin, a company that applies powdered paint through an electrostatic process to items ranging from motorcycles to musical instruments. Kalish has also been involved with a number of other start-up businesses, both as an owner and in various management positions. The answer to the question of "What structure makes the most sense?" depends, he says, on the individual circumstances of each business owner. "Each situation I've been involved with has been different," he says. "You can't just make an assumption that one form is better than another."

It's not a decision to be entered into lightly, either, or one that should be made without sound counsel from business experts. Kalish says it's important for business owners to seek expert advice from business professionals when considering the pros and cons of various business entities.

"I've heard horror stories from people who, in hindsight, wish they had taken the time and spent the money to get expert advice upfront," Kalish says. That advice can come from a variety of sources, ranging from the no cost/low cost, such as the SBA or the Service Corps of Retired Executives (SCORE), to pricier attorneys and accountants who can serve as valuable sources of information throughout the life of your business.

Types of Business Entities

The type of business entity you choose will depend on three primary factors: liability, taxation and record-keeping. Here's a quick look at the differences between the most common forms of business entities:

- A **sole proprietorship** is the most common form of business organization. It's easy to form and offers complete managerial control to the owner. However, the owner is also personally liable for all financial obligations of the business.

6 Stone Hill Road

Wilmington, DE 19803

Office: 302 594-0754/Home: 610-925-4684

Cell: 302 379-1010

E-mail: beverly@beverlystewart.com