**MOST COMMON BUSINESS FORMATIONS**

* **Sole Proprietorship**: Treated as self-employment. Easy to form and gives you complete control of your business. You’re automatically considered to be a sole proprietorship if you do business activities but don’t register as any other kind of business.
  + Positives: Administratively easy, and do not have to file a separate tax return.
  + Negatives: Full personal liability against all business debts and litigation.
* **Limited Liability Company (LLC):** Lets you combine the pass-through taxation of a partnership or sole proprietorship with the limited liability of a corporation. Each state has specific rules regarding the operation of an LLC so working with an experienced attorney familiar with state law in the formation of the entity is critical.
  + Positives: Protects your personal assets from business liabilities. Offers flexibility on the taxation of earnings, and if a partnership, the distribution of money.
  + Negatives: Members of an LLC are considered self-employed and must pay self-employment tax contributions towards Medicare and Social Security unless an election to be treated as an S corporation or C Corporation is made.
* **Partnership:** Partnerships are the simplest structure for two or more people to own a business together. There are ~~two~~ three common kinds of partnerships: general partnership (GP), limited partnerships (LP) and limited liability partnerships (LLP).
  + Positives: Allows flow through taxation and special allocation of income and expenses.
  + Negatives: Unlimited personal liability for general partner unless structured as an LLP. State law varies regarding the operation of partnerships, a lawyer is essential to ensure set up correctly in applicable state(s).
* **C-Corporation**: This is a legal entity that’s typically used for larger company set-ups. Corporations can make a profit, be taxed, and can be held legally liable. Corporations offer the strongest protection to its owners from personal liability, but the cost to form a corporation is higher than other structures. In some cases, corporate profits are taxed twice — first, when the company makes a profit, and again when dividends or wages are paid to shareholders on their personal tax returns.
  + Positives: Strongest protection from personal liability and unlimited shareholders/capital.
  + Negatives: Extensive record keeping, operational processes and reporting, and potential for double taxation.
* **S Corporation:** This type of corporation is designed to avoid the double taxation drawback of regular C-corps. S-corps allow profits and losses, to be passed through directly to owners’ personal income without ever being subject to corporate tax rates.
  + Positives: Income is taxed at the shareholder level rather than the corporate level.
  + Negatives: Limited to the number of shareholders you can have and restrictions on the distribution of profits amongst partners.