

County of Bucks

Community Services Division

Lynn T. Bush, Executive Director and County Chief Clerk

Community and Business Development Department

Vitor A. Vicente, Director

Neshaminy Manor Center
1260 Almshouse Road
Doylestown, PA 18901

Office Hours
Monday through Friday
8 a.m. to 5 p.m.

Economic & Business Development Program

Sonia R. Smith, Administrator

Phone: 215-345-3839
Fax: 215-345-3865
E-mail: srsmith@co.bucks.pa.us

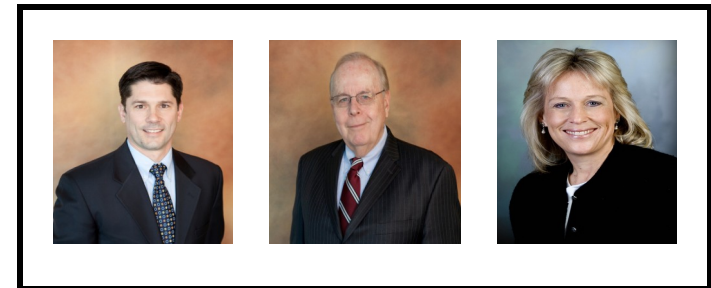
www.buckscounty.org



How to Structure Your Business

BOARD OF BUCKS COUNTY COMMISSIONERS

Robert G. Loughery, *chairman*
Charles H. Martin, *vice chairman*
Diane M. Ellis-Marseglia, LCSW



GETTING BUCKS IN BUSINESS ©

CONTENTS

Sole Proprietorship.....3

General Partnership.....4

Limited Partnership.....4

Limited Liability Company.....5

Limited Liability Partnership.....5

Corporation.....5
Subchapter S Corporation

Resources.....7

Editor's Note: Your feedback can help us identify the type of information you require. Email your comments to srsmith@co.bucks.pa.us and refer to this specific publication.

rev. 02/2008

Note: in order to be eligible for Pennsylvania S-Corporation status, a corporation must apply for similar federal status first . But if a corporation applies for federal status, and fails to apply to the Commonwealth, it will be taxed as a C-Corporation.

Advantages

- Good structure for start-up companies.
- Limits on personal liability.
- Elimination of double taxation.

Disadvantages

- Taxes on fringe benefits.
- Limits on retirement benefits.
- Must file and pay Pennsylvania Capital Stock Tax.

RESOURCES

Various documents are required to establish any of these business structures. In addition to having legal, accounting and tax professional assistance, contact the following agencies for forms and general questions.



PA Department of State
www.dos.state.pa.us

PA Department of Labor and Industry
www.dli.state.pa.us

PA Department of Revenue
www.revenue.state.pa.us

PA Business Start-up and Development
www.paopen4business.state.pa.us

PA Business, Community & Site Revitalization
www.newpa.com

Business Link to the US Government
www.business.gov

Internal Revenue Service
www.irs.gov

A corporation is a distinct legal entity which has its own rights, privileges, and liabilities apart from the persons who formed it. The corporation can own assets, borrow money, and perform functions without involving its owners.

Advantages

- Provides legal separation between personal and business assets.
- The continuity of the business is not affected by the death or change of one or more of the owners.
- Greater accessibility to capital.

Disadvantages

- The most complex to set-up and dismantle.
- Power limited by the articles of incorporation, the by-laws, and a vote of the shareholders.
- A corporation files its own income tax, making its owners subject to double taxation. The corporation pays taxes on earnings and the shareholders pay personal income taxes on the profits (dividends) distributed to them.
- Subject to government regulation and extensive record keeping.

Subchapter S-Corporation

Both the Commonwealth of Pennsylvania and the Internal Revenue Service (IRS) allow corporations with less than 75 shareholders to elect to be a Subchapter S Corporation.

A Subchapter S Corporation is a tax status that an existing corporation can choose. As a result of its tax status, a

Subchapter S Corporation is treated as a partnership for tax purposes, avoiding the double taxation by federal and state governments. The profits are taxed at the individual rate rather than the corporate rate. However, the percentage of income that a Subchapter S Corporation can derive from passive investments is limited under the IRS code.



HOW TO STRUCTURE A BUSINESS

Six basic business structures exist in the Commonwealth of Pennsylvania. There is no single best structure that can fit everyone's needs and interests. The "best" structure can depend on a number of factors that are unique to each business and its owner's business goals. The business structure chosen should depend on examining the following issues:



- Liability Protection
- Member Restrictions
- Double Taxation
- Transfer of Shares
- Cost of Start-up
- Access to Capital

We recommend consulting legal, accounting, and tax professionals when considering the structure and formation of your business.

SOLE PROPRIETORSHIP

Sole proprietorships are the simplest form of a business structure and provide the maximum control to a business owner. They can be established under an individual owner's name and/or trade under a fictitious name. Sole proprietorships do not allow for legal separation between business and personal assets of the owner.

Advantages

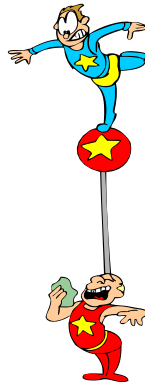
- Easiest and least expensive type of business to start.
- Little government reporting and regulations.
- All profits are taxed as income to the owner personally and usually at a lower rate than the corporate rate.
- Business can trade under its owner's social security number (if it has no employees).

Disadvantages

- Owner faces unlimited liability because there is no legal separation between the person and the business.
- More difficult to raise capital.
- Business typically ends with the owner's death.

GENERAL PARTNERSHIP

A partnership involves two or more persons who agree to share ownership, management responsibility, and personal liability for all business debt. The partners prepare a written partnership agreement outlining: the capital contributed by each partner, responsibility for management of the business, authority sharing, and a method for dividing profits. The partners may get life insurance on each partner to ensure continuity of the business in event of a partner's death.

**Advantages**

- Bring together the capital resources, skills, and talents.
- Subject to little regulation and easy to establish.
- Profits are passed as income to the partners (based on their percentage of ownership) who are assessed at their individual tax rates.

Disadvantages

- Partners have unlimited personal liability.
- Difficult to disengage from an uncooperative partner.
- Partnership can end with the death of a partner.

LIMITED PARTNERSHIP

A limited partnership is an agreement between two or more persons where there are two types of partners. The limited partners have limited exposure to liability since they are not involved in daily management. General partners participate in the business operations and are exposed to greater liability.

Advantages

- General partners involved in daily operations.
- Earnings passed to the limited partners and reported at personal income rate and paid at the applicable individual rate.

Disadvantages

- More difficult to set up.
- Limited partners relinquish control of the daily business operations to the general partners.

**LIMITED LIABILITY COMPANY**
LIMITED LIABILITY PARTNERSHIP

A limited liability company is a cross between a partnership and a corporation. A limited liability partnership is similar, but it is aimed at professional organizations. Both provide the liability protection offered by a corporation and afford the tax benefits of a partnership.

Advantages

- The company can acquire assets, incur liabilities, and conduct business as a separate entity.
- Owners have limited liability: they risk only their investment, not their personal assets.

Disadvantages

- More difficult to set up.
- Owners exposed to liability in cases of guarantor liability and alter ego liability.

CORPORATION

A corporation is the most complex and expensive way to structure a business and it is comprised of shareholders, directors, and officers. It is a state-chartered organization owned by the shareholders, who elect a board of directors to manage the business.