

TEN THINGS TO THINK ABOUT – CHOOSING A BUSINESS FORM

1. **Cost.** A sole proprietorship or general partnership can be set up very inexpensively. A limited partnership and a limited liability company are more expensive to set up. Setting up a corporation can be a very expensive undertaking.

2. **Ease.** A sole proprietorship is easy to set up; sometimes all it takes is opening up a business checking account. Similarly, a general partnership is easy to set up, although a partnership agreement is something that the partners should create prior to beginning operations. A limited partnership, limited liability company, and corporation involve more work. Since all three entities must be recognized by the state, it is important to adhere strictly to the state requirements or run the risk of losing the advantages that the particular business entity provides.

3. **Termination.** Some business entities automatically terminate upon such events as death, the withdrawal of a partner, or even divorce. In addition, some businesses are allowed to exist only for a state-mandated period of time.

4. **Public Information.** How much information do you want the public to know about your business and finances? A corporation is required to provide much more information to the state, which is then available to the public, than a limited liability company or a limited partnership. Sole proprietorships and general partnerships offer the individuals involved a great deal of privacy.

5. **Risk.** If the business involves a great deal of risk a sole proprietorship or general partnership may be a bad idea because the owner and general partners are personally liable for the business debts and obligations.

6. **Operation.** The form of the business entity may dictate how it is operated. If you want total control, a sole proprietorship provides the businessperson the greatest degree of control (and the greatest degree of potential risk).

7. **Capitalization.** An undercapitalized business may result in a loss of protection provided by the business entity. In addition, some business forms make it easier to raise capital when it is needed.

8. **Selling.** A sole proprietorship is easy to sell; usually you sell the assets of the business, and your business ceases to exist. Selling a partnership interest or a member's interest in a limited liability company can be tricky because it requires approval of the other partners or members.

9. **State Taxes.** Some states have begun to levy taxes on the business entity itself. This is becoming a big issue with limited liability companies. You should know whether your state will tax your business entity before setting it up.

10. **Expansion.** Every entrepreneur wants to be as successful as possible. Some business entities are limited to the number of shareholders they may have. A sole proprietorship ceases to exist the moment the sole proprietor takes on a partner. It is important to choose a business form that allows you the greatest room to grow if that is what you envision. Although the business form may be changed, this involves additional expense and energy.