

STRUCTURING YOUR BUSINESS FOR SUCCESS!

*Quickly
understand the 5
business structure
types, so that you
can confidently
choose the ONE
that's right
for YOU!*



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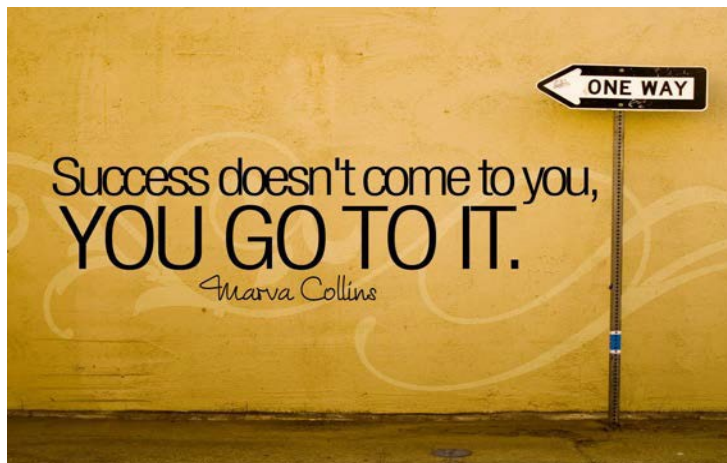
iCompass Compliance Solutions, LLC & 1 Hour Impact

Small Business Resource - Overview of Business Structures

(with links to IRS and SBA for high level legal and tax considerations, plus forms)

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Hi fellow Small Business Owners!

We are happy to share a high level overview of the most common types of business structures you may wish to consider as you launch and grow your company. We hope you find this resource helpful. Best wishes!

First – Let's Get Visual:

Let's start with an easy-to-read, downloadable chart - "[LeapLaw Business Structure Chart](#)", which provides a quick comparison for Sole Proprietorships, Partnerships (general and limited), S Corporations & C Corporations.

A few beginning points to note:

- This overview is not exhaustive, but will give you some solid guidelines to begin with
- The following information *presumes you are operating a USA-based company for structure and taxation.*
 - First, you will need to determine your business structure (see detail below and page 2)
 - Unless you are a sole proprietor and using your SSN, you will want to [get an EIN# from the IRS](#)
 - You can complete [your EIN Application online](#), or request [your EIN by mail with Form SS-4](#)
 - With the TCJA, the new [Section 199A deduction](#) can provide significant benefits!
- In addition to federal considerations, please determine if you have state and local requirements
 - **What State?** You will likely have to register with your state (a Master Business license)
 - Some business types require annual filings with your state – LLCs and S Corps usually do
 - You may also need to get a County or City license (call or look on your county/city website)
 - You may need to file periodic state and local tax forms, such as payroll & sales tax, B&O or use tax...also check if you have to file business assets personal property returns with your county
- Beyond Structure – Planning for the Future - When Should You Set Up a Self-Employed Retirement Plan? What about healthcare and other employee benefits? **And, what is Section 199A all about?**
 - Ex. SEP, SIMPLE, Solo 401(k), Section 199A, etc. (Covered in more detail in our **Bootcamp** course!)

NOT INTENDED AS TAX OR LEGAL ADVICE.

OK, so let's talk Business Structure!

To begin, here are two handy resources to get a broad overview on business structures.

- 1) Internal Revenue Service: [Small Business & Self-Employed Business Structures](#) (a little more technical)
- 2) This article from Entrepreneur also has an easy to read [solid overview, with liability and tax implications](#)

Next: Five basic types of Business Structures **with focus on Federal Tax Filing.**

Also included: IRS links and SBA (Small Business Administration – **pretty user friendly**) article links for more detailed information on each business type.

Sole Proprietor – easiest to form and dissolve, generally a single owner (or husband and wife). You can use your SSN or get EIN, file on Schedule C with your tax return and all net income is taxed at the personal level. You will pay self-employment tax on net income and this can be substantial. This form of ownership has unlimited personal liability and the owner's personal assets can be seized for payment of debts, etc.

IRS link: [Internal Revenue Service Small Business & Self-Employed – the Sole Proprietorship](#)

SBA link: [Sole Proprietorship](#)

Partnership – two types – General Partnership and Limited Partnership. General partners have unlimited liability but also more flexibility and control. Limited partnerships may be useful if you plan on having one or more passive partners – who may finance portions of the business, but not participate in the daily operations.

Partnerships are filed on a separate Form 1065, but income / loss flows through to the partners via issued Form K-1 for use on their personal tax returns.

IRS link: [Internal Revenue Service Small Business & Self-Employed – Partnerships](#)

SBA link: [Partnerships](#)

Limited Liability Company (LLC)

An LLC is a hybrid structure, combining limited liability protections with the operational effectiveness of a partnership. Owners are called “members”.

You will generally need to file Articles of Incorporation with your State and maintain annual filings. Failure to keep your filings current could result in your LLC being dissolved by the State.

Like sole proprietors and partnerships, LLC income is passed through to the members for reporting on their personal tax returns. For single member LLCs – file Schedule C like a sole proprietor. For multi-member LLCs, you typically file a Form 1065 like a partnership and issue a K-1.

One important point to note – an LLC can elect to be taxed as an S Corporation by filing Form 2553. However, first consult with your attorney / tax professional, as this election requires a separate tax return filing (Form 1120S) and is generally considered irrevocable.

IRS link: [Internal Revenue Service Small Business & Self-Employed – Limited Liability Company \(LLC\)](#)

SBA link: [Limited Liability Company \(LLC\)](#)

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S Corporation (Closely Held Corporation)

S Corporations can be formed for domestic companies with fewer than 100 members and only one class of stock. Certain individuals and companies may not participate in S Corps. One of the best features of the S Corp is the tax savings for you and your business.

While members of an LLC are subject to employment tax on the entire net income of the business, ***only the wages of the S Corp shareholder who is an employee are subject to employment tax. The remaining income is paid to the owner as a "distribution," and taxed at your marginal tax rate.***

On this topic, the IRS pays particular attention to the issue of [wages & compensation vs distributions to S Corporation members](#).

Again, this is a complex issue and your wages **must** be reasonable - consult your tax professional. For federal taxes, S Corporations file Form 1120-S and issue 1120-S K-1s to the members, for use with their personal returns.

IRS link: <https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/S-Corporations>

SBA link: [S Corporations](#)

C Corporation (or simply Corporation)

A "C" corporation is a separate, legal, stand-alone entity. As such, it issues ownership stock and has shareholders. It pays income tax on earnings at the corporate level but pays dividends to shareholders.

Shareholders also pay tax on distributions/dividends they receive – hence the term "double taxation" which you may have heard.

Shareholders cannot deduct losses of the corporation on their personal return. Some large corporations are required to file their payroll and other tax remittance returns electronically, which speeds up tax payment transmissions. Corporations generally file a Form 1120 or Form 1120-A.

IRS link: <https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Corporations>

SBA link: [C Corporations](#)



At iCompass Compliance Solutions, LLC, *and 1 Hour Impact*, we know how critical financial, tax and compliance decisions are to your business AND *your family!*

That's what we do.

We also know the effort it takes to get YOUR small business going – and to help it grow and thrive in an ever-changing world.

Our passion is to be your trusted resource – your compass for all things finance and compliance....**let us show you the way.**

SUCCESS TIPS: *Advance tax planning is crucial to maximize the benefit of Section 199A Qualified Business Income deduction.* Bookmark [iCompass Compliance Solutions, LLC](#) and [1 Hour Impact](#) or inquire about our online ["Small Biz Smart Money Bootcamp" course](#) to get a jump-start on understanding your small biz accounting, financial and compliance needs! Also, please [reach out to us](#) if you have a specific question...

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