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BUSINESS STRUCTURES

Sole Proprietorship: An unincorporated business owned by an individual.

1. **Control:** Owner retains full control in all decisions made related to any aspect of the business, from personnel policies to the hours of operation.
2. **Liability:** Owner is held personally liable for any claim levied against the business. All personal assets are subject to claim for taxes or debts owed by the business.
3. **Taxation:** Profits generated by the business are treated as personal income and are taxed as such. Additionally, business losses can also be represented on personal taxes.

Partnership: Any two or more individuals or entities that agree to contribute money, labor, property, or skill to a business and who agree to share in its profits, losses and management. The partnership dissolves upon the death or withdrawal of one partner. The partnership does not exist independent of the people who make it up. You can have a general partnership or a limited partnership.

1. **Control:** Dependent upon the division of responsibility in the written partnership agreement. Generally one or more of the partners retain control of all decisions made regarding the business.
2. **Liability:** Partners are held personally liable for claims against the business. One partner can be held personally liable for debts levied against the partnership if the other partner cannot satisfy their share of the responsibility for the debt.
3. **Taxation:** Profits and losses are treated as personal income and depending upon income levels, profits may be taxed at a rate below the corporate tax rate. Partnerships must file separate tax returns and must register with the IRS and obtain a Partnership Tax Identification Number.

Corporation: Also called “C Corp”, is an artificial legal entity that exists independent of the people who own, manage, and control it. Owners of the business are generally referred to as shareholders and the managing component of the business is called the Board of Directors.

1. **Control:** The Board of Directors must vote on all decisions related to the business. The Board can be comprised of any variety of people as well as any number. The composition of the Board is generally outlined in the corporate by-laws.
2. **Liability:** As a distinct entity, the corporation is held legally liable for claims levied against the business. Generally speaking, the owners themselves cannot be held personally liable for any debt, or wrong doings of the corporation. For small businesses, the limited liability advantage to corporations may be compromised by having to personally guarantee business loans.
3. **Taxation:** Depending on the tax bracket of the owners, the corporation may pay lower taxes than a sole proprietorship. However, since some of the corporation’s profits are distributed to the shareholders, that money is in essence “Double Taxed.” It is first taxed at the corporate level as profit and then at the personal level as income. Subchapter “S” Corporations (“S Corps”) resemble “C Corps” in many ways except tax treatment. Like the partnership, the profits and losses of the business pass directly through to the shareholders and are reported on their individual tax returns as income and are taxed at the individual rate.