



## LLCs? S Corps? How Do You Decide?

By Eve Tahmincioglu



There comes a time when a business owner starts thinking about going from Joe's Roofing to Joe's Roofing Inc., Corp. or LLC.

And there's no doubt that adding one of these fancy business designations to your company's name offers an air of professionalism. The key is figuring out whether forming a business entity is really a smart tax and legal decision, or just overkill.

When Laura Schoppe started her Raleigh, North Carolina, information technology consulting firm in 2001, she quickly realized that she wanted to appear as professional as possible, and decided looking a bit more corporate would do the trick.

She consulted her accountant and attorney about the various business entities she could form, including an S corporation and a limited liability company, aka LLC, and decided on the latter.

"I felt an LLC was the best option for my business," she explains, adding, "It was super easy. I did it all online." That's when Fuentek LLC was born.

Easy once you decide what route to take, sure, but how do you go about picking your path?

"If you're just one person or an independent contractor, you can look at sole proprietorship, but you're personally not protected from legal and debt liability," says Bill Rys, tax counsel for the National Federation of Independent Business (NFIB). If you're looking for that kind of protection, there are a few options, he adds.

Basically, you have to ask yourself two questions to determine if you need protection, suggests John Rainey, senior business advisor and financial specialist at Clark University's Small Business Development Center in Worcester, Massachusetts:

1. Is there a chance that something bad can happen as a result of your product or service? Make a risk assessment, he advises. If you're starting a medical business you may face a lot of potential liability, as opposed to running a scrapbooking business.

2. Is there anything customers or clients can get if they come after you? Think about what personal assets you have, and whether you want those protected in the event of a lawsuit.

If your answer to both of these questions is yes, then read on. There's never been a better time to create a business structure for your company. It's easier and cheaper than ever to do so, thanks to the emergence of so many online sites — LLC.com and LegalZoom.com, for example — offering cut-rate legal services, says Bruce Bachenheimer, director of entrepreneurial studies at Pace University. Many entities can be formed for less than \$250, depending on the complexity of your business.

The business entities most common among small firms, according to the NFIB:

- At the top of the list is the S corporation, with 31 percent of small firms using this structure.
- C corporations represent about 26 percent.
- Sole proprietorships are at 21 percent.
- And 12 percent of small firms are LLCs.

For firms that are in the early stages of business and worried about liability issues, many experts recommend either the S corp or LLC:

**S corp.** An S corp is similar to a regular corporation but allows a business owner to avoid double taxation. Under this designation, the business can issue stock but must have 75 or fewer stockholders, and the company must be U.S.-based.

**LLC.** This business structure is allowed under state laws and basically creates a company of unlimited partners, not investors. An LLC does not have stock, but that also means there isn't as much paperwork as with a corporation. Earnings can be passed through to an LLC's members, or the firm can be taxed like a corporation.

The pros and cons of business structures for an individual business have to be determined on a case-by-case basis, says Pace's Bachenheimer. "The choice of ownership structure is not a 'business strategy' type issue," he maintains. "It is purely a legal/tax issue and has very specific, detailed implications and consequences."

The NFIB's Rys suggests you sit down with your accountant before making a decision, and even consult a lawyer. "You should be looking at your business as not what you need today but where you will be in three or four years," he stresses.

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