

Business Formation: Choice of Entity

Business Considerations:

1. Purpose: Usually make a profit.
2. Organization & Management: Business owned by one or more persons?
Managed by one person or a team?
3. Control: One individual or a group of people?
4. Duration & Continuity: Forever or of limited duration?
5. Liability of Owners: Can you buy insurance?
6. Capital Formation & Debt: Can you attract investors?
7. Transferability of Interests: New partners? Ever want to sell?
8. Cost & Reporting Requirements: Start up costs? Formalities?

Tax Considerations

1. Double Taxation: Should be avoided if possible
2. Allocation of Income & Loss: Partnerships or LLCs are best
3. Accounting Methods: Accrual or cash?
4. Employee Benefits:

Principal and Most Important Considerations

1. Ability to attract investors and capitalize a business
2. Management and operation
3. Limit liability

Must Be Reconsidered as Business Circumstance & Applicable Laws Change

Accounting methods and the allocation of income and loss are important factors. Initially the business entity may operate at a loss. This may be followed by stabilization of income and steady growth and reinvestment of profits. Later, the business may generate substantial profits, and ultimately be transferred by sale, merger or succession. Similarly, tax and other laws change. These factors should be taken into consideration when determining the initial form of the business.