

Q. What type of business structure should I use?

A. Determining the business form most appropriate for a business will depend upon the particular objectives and situation of that business. The most common business forms are the (i) sole proprietorship, (ii) partnership, (iii) subchapter C corporation, (iv) subchapter S corporation, and (iv) limited liability corporation. Other less common forms include business trusts, cooperatives, professional corporations and limited liability partnerships.

Each business form has its own advantages and disadvantages. Choosing the appropriate business form involves weighing these advantages and disadvantages in light of the business objective to be attained. Factors to be considered include personal liability issues, tax strategy, desired management structure, financing issues, and regulatory requirements. For example, in California contractors may be individuals, partnerships, corporations, or joint ventures, but not limited liability corporations. In some situations it may be advantageous to use more than one form of business organization for a business. Also, the form of organization may be changed over the life of the business as its membership or needs change.

Deciding to go into business is a huge step. Entrepreneurs should consider consulting an attorney for assistance in determining what type of business structure they should use, what licenses or permits they may need, and optimizing their operations in light of their risk tolerance level.

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