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STARTING A NEW BUSINESS

STEP 1: CHOOSE A BUSINESS STRUCTURE

The type of tax return that your company must file depends on the business structure you choose when you start your business.

Here are the most common forms of business structure:

- **Sole Proprietorship:** You are the only owner of the business. Setting up this type of entity is the easiest. However, you're exposed to business legal liability because there is no legal difference between you personally and your business. If you own a coffee shop, for example, and a customer falls and sues your shop for negligence, both your business and personal assets are at risk. This type of business falls into Schedule C territory.
- **Corporation:** A corporation (C-corporation or C-corp for short) offers the most legal protection because the business is a separate legal entity from the owner. A C-corp also makes it easy to bring in other owners by issuing shares of common stock. However, setting up a C-corp and meeting the regulatory reporting guidelines can be time-consuming. There's also a corporation tax collected, so be prepared for that as well. Corporation tax returns can be complicated and require more planning and preparation than individual returns.
- **S-Corporation:** If your business is an S-corporation (S-corp), the profits and losses of the S-corp are passed through to each shareholder's tax return.
- **Partnership:** A partnership files a tax return, but the profits and losses of the partnership are passed through to each partner's personal tax return. This type of tax is generally processed using the Schedule K-1.
- **Limited liability company (LLC):** An LLC allows you to limit your personal liability for business risks without having to meet the same level of regulatory requirements as a corporation. There are several different LLC structures, based on your state's tax laws.