



THE WHITE PAPER

Timely Insights for Your Financial Future

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Tori Patrick

President
Progressive Strategies Financial
Group
27201 Puerta Real Suite 300
Mission Viejo, CA 92691
949.204.3800 702.893.1500
Fax: 702.549.1900
Tori@psfgwealth.com
www.psfwealth.com

CA Insurance Lic#

You and Your Business: Choosing the Right Form of Ownership

The form of ownership you choose for your company can have lasting legal, financial, and tax implications. Here's a review of some of the most common business structures.

- **Sole proprietorship** -- Under this arrangement, one person owns 100% of the business. Taxes are paid using a regular Form 1040, with the addition of a Schedule C to report profits and losses, and a Schedule SE for self-employment tax. While a sole proprietorship is easy to establish, since you and your business are considered the same entity, you potentially face unlimited personal liability if you are sued or become unable to pay your debts.
- **General partnership** -- A partnership is essentially two or more business owners operating under one entity. Ownership can be divided any way the partners see fit, and partners report only their portion of profits or losses on personal income tax forms. As with sole proprietorships, partners can be held personally liable for the debts of the partnership.
- **Limited liability company (LLC)** -- An LLC retains the tax structure and flexibility of a general partnership, but without the personal exposure to liability. Instead, the LLC itself is responsible for company debts and any potential legal claims.
- **C-corporation; S-corporation** -- Corporations also shelter owners from personal liability, but C-corporations get taxed twice -- once as a corporate entity and again on the owners' personal income that is passed through as dividends. In most states, S-corporations avoid the double-tax dilemma by passing profits directly to owners, but they are mired in special rules and regulations that make them more complicated to administer.

If you have yet to choose a structure for your business, or if you feel that your business may benefit from a new structure, make sure you talk through the issues with an attorney who is well versed in the legal aspects of business formation as well as an accountant who understands the potential tax implications.

This information is not intended as legal or tax advice and should not be treated as such. You should contact your estate planning and/or tax professional to discuss your personal situation.

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