



BUSINESS **STARTUP**

BLUEPRINT

CHOOSING A LEGAL STRUCTURE

TRANSCRIPT



All right. In this lesson, we're going to tackle one of the number one questions I get when someone's thinking about starting a business: how should I set up the legal structure? You've already picked your business name.

The next step is to form your entity and register your business. I want to put a disclaimer here. I'm not an attorney or a CPA, and every state has different regulations regarding business registration.

You should check with a local attorney, state regulations, and a CPA because choosing a legal structure has tax ramifications and consequences. There are different types of structures, each with pros and cons. This will be a brief overview of some of these entities.

First, let's talk about sole proprietorships and partnerships. The pros of these entities are that they are relatively easy and inexpensive to set up and maintain. The owner has complete control over the business, receives all the profits, and it's flexible in how you pay yourself.

The cons are that they don't provide as much legal liability protection for the business's debts and legal issues. It's also difficult to raise capital and obtain financing because these entities are more based on the individual.

They don't have a separate entity identification number, which banks and other entities prefer when evaluating investment opportunities. Additionally, there is the potential for higher taxes, including self-employment tax, which is a higher tax bracket.

Next, let's discuss S corporations and C corporations. These are individual entities that exist separately from the business owner. They are typically owned by shareholders and can exist in perpetuity.

The cons are that they are more difficult to set up and maintain, requiring more regulatory compliance to keep the entity legitimate. This includes tracking meeting notes and minutes and documenting changes with legal documents. However, they can provide more tax benefits.

Lastly, let's talk about LLCs (limited liability companies). This is the entity I use for most, if not all, of my businesses.

LLCs offer more flexibility. You can choose to be taxed as a sole proprietorship or as a corporation, giving you more options as your business grows and matures. LLCs provide flexibility and can be adjusted over time.

Regardless of the entity you pick, you can change and shift it as needed. Don't worry too much about choosing the right one initially, as you can adjust it later. But again, make sure to talk with a tax and legal professional to get advice specific to your business and its future plans.

We'll see you in the next lesson.

Summary of Key Points:

- **Sole Proprietorship and Partnership:**
 - **Pros:** Easy and inexpensive to set up and maintain, complete control, flexible pay
 - **Cons:** Less legal liability protection, difficult to raise capital, potential for higher taxes including self-employment tax
- **S Corporation and C Corporation:**
 - **Pros:** Separate legal entity, can provide tax benefits
 - **Cons:** More complex to set up and maintain, requires regulatory compliance and documentation
- **LLC (Limited Liability Company):**
 - **Pros:** Flexible tax options (can be taxed as sole proprietorship or corporation), provides legal liability protection, adaptable as business grows
 - **Cons:** Requires setup and compliance but less complex than corporations
- **General Advice:**
 - Consult with a local attorney, CPA, and check state regulations
 - Understand tax ramifications and choose based on current and future business needs
 - Legal structure can be changed as the business evolves