

Should You Incorporate or Form a Limited Liability Company By Erik W. Fox, Esq. Certified Arborist

Successful businesses are based upon providing great services at a fair price. Business owners often start their business based on this concept and then go out, get jobs and start working. Successful businesses owners also need to make sure that they are protecting their and their family's personal assets.

Businesses can take many forms: sole proprietorships (one individual owns and operates the business), partnerships (two or more individuals go in together), corporations (individual or multiple owners) and Limited Liability Companies (individual or multiple members).

Sole proprietorships or partnerships are often how new businesses start. They are inexpensive to start and let you get your name out there and start earning income, and the tax structure is easy to manage. However, sole proprietorships and partnerships have significant draw backs of which you should be aware.

Foremost, is liability. The owners of these forms of business are personally liable for all the debts of the business. This liability is not limited. Business owners can end up losing their personal cash, vehicles and even homes. In an industry where a branch can fall the wrong way, or someone didn't attach the chipper correctly, sole proprietorships and partnerships leave their owners exposed to significant liability.

Unlimited liability can be combated by establishing your business as a corporation or Limited Liability Company ("LLC"). Corporations and LLCs are more expensive to establish than sole proprietorships or LLCs. However, one of their most important functions is limiting the liability of their owners. Liability can be limited to the assets actually invested in the corporation or LLC. If properly managed, creditors cannot attack owners' personal assets.

By forming as a corporation, "S" corporation, or LLC, business owners can also select the tax structure which is best for them, either paying separate corporate taxes, handling the gains or losses through their personal income taxes, or being taxed as a partnership.

It is important to make sure that your business is structured to maximize the benefit you want and protect your assets.