

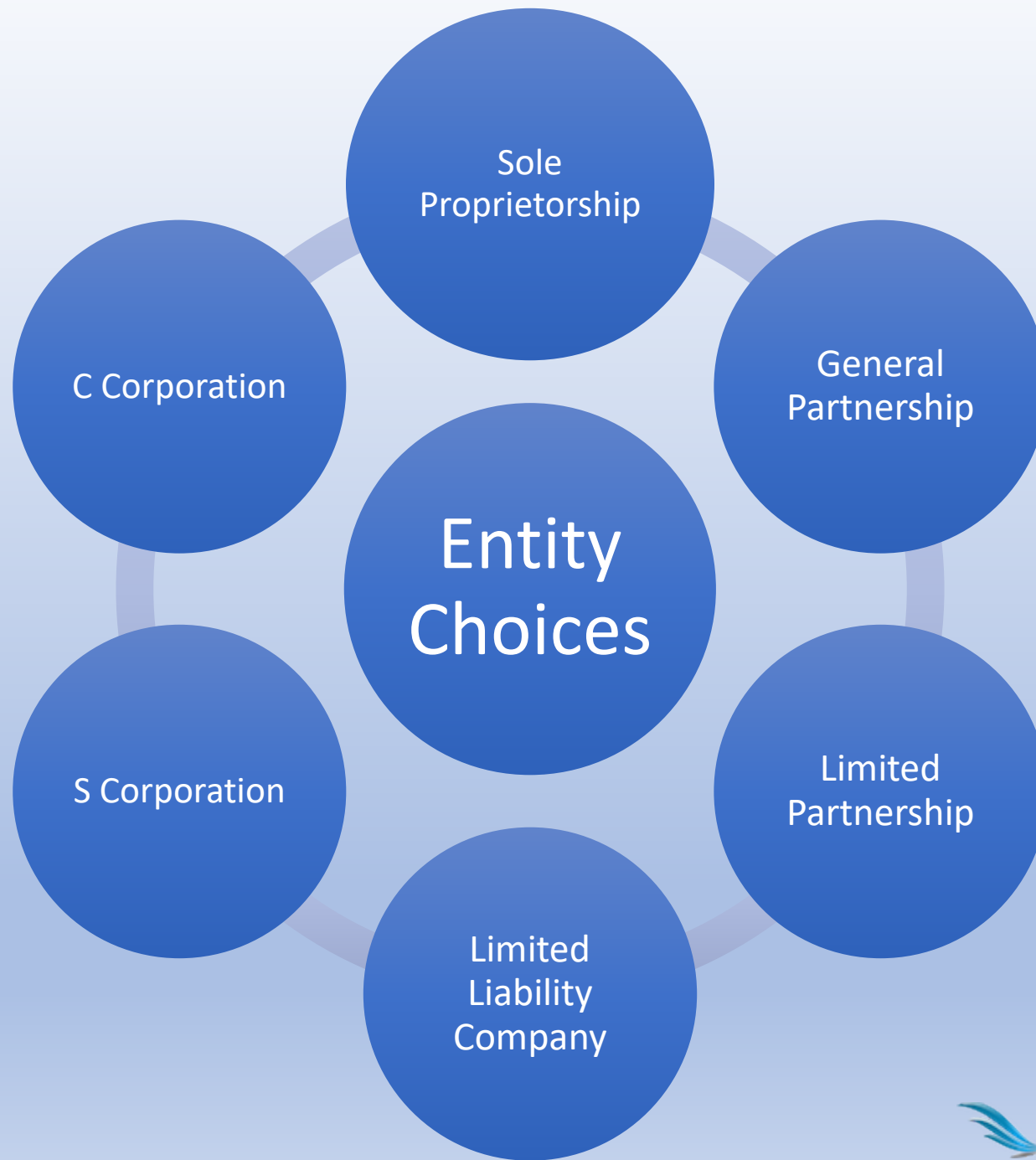
# Choosing the Right Business Structure (for YOU)

Hawaii Small Business Fair – May 4, 2019

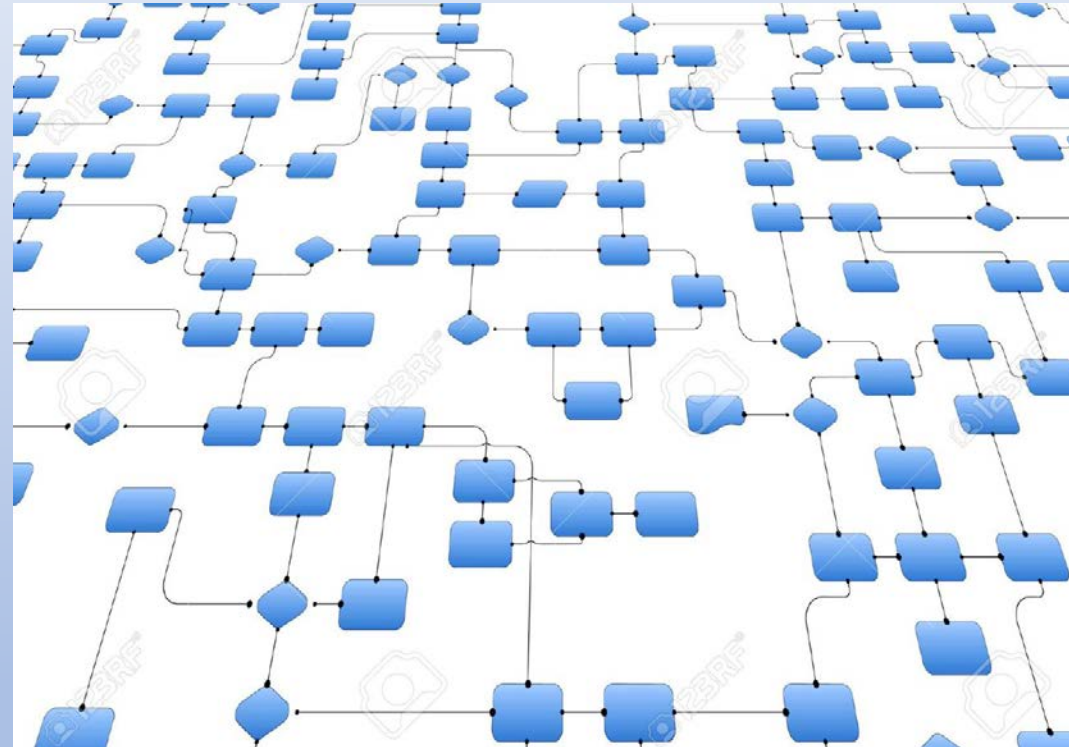
When is the best time to  
form a business entity?

Where is the best place to  
form my business entity?

What is the best type of  
business entity for me?

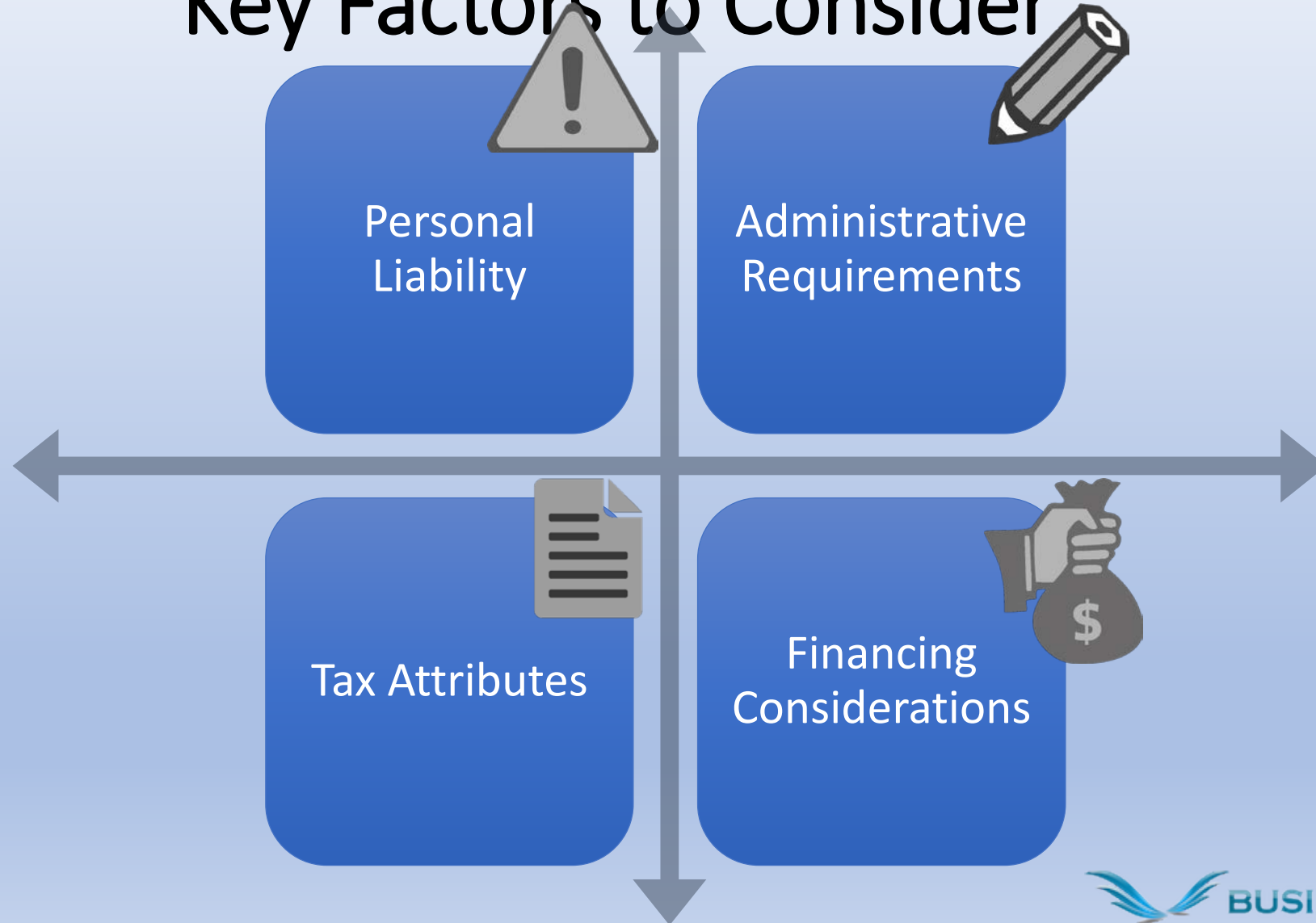


# The Usual Decision Chart



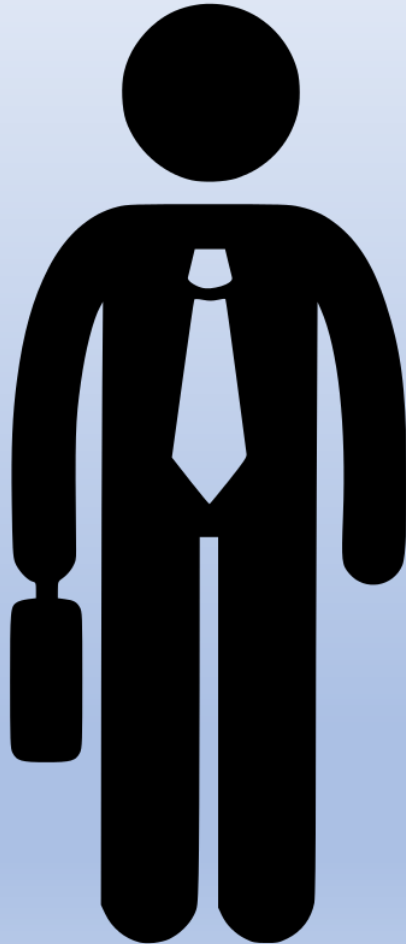
How do I make sense of all this?


# Key Factors to Consider






# Sole Proprietorship



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- ❖ “DBA”
  - ❖ Business owned by one person
  - ❖ Not a separate legal entity from its owner
  - ❖ Owner has unlimited personal liability for all debts of the business

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- ❖ No administrative requirements

- 
- ❖ One level of taxation

- 
- ❖ No Angel or VC investment

# When is it a good choice to be a sole proprietorship: Never!

## “Advantages”

- ❖ Uncomplicated
- ❖ Ease of formation
- ❖ Management flexibility
- ❖ Tax advantage by avoiding double taxation
- ❖ Maximum centralized authority

## Disadvantages

- ❖ UNLIMITED PERSONAL LIABILITY
- ❖ Lack of continuity upon owner’s death
- ❖ Cannot raise investment capital
- ❖ Cannot sell business as a whole
- ❖ Single member LLC is tax as a sole proprietorship but offers limited liability

# General Partnerships: Not a good choice



- ❖ Must have more than one owner, known as “partners”
- ❖ Partnership a separate legal entity from its owners
- ❖ Partners have unlimited personal liability for the debts of the partnership



- ❖ Few administrative requirements



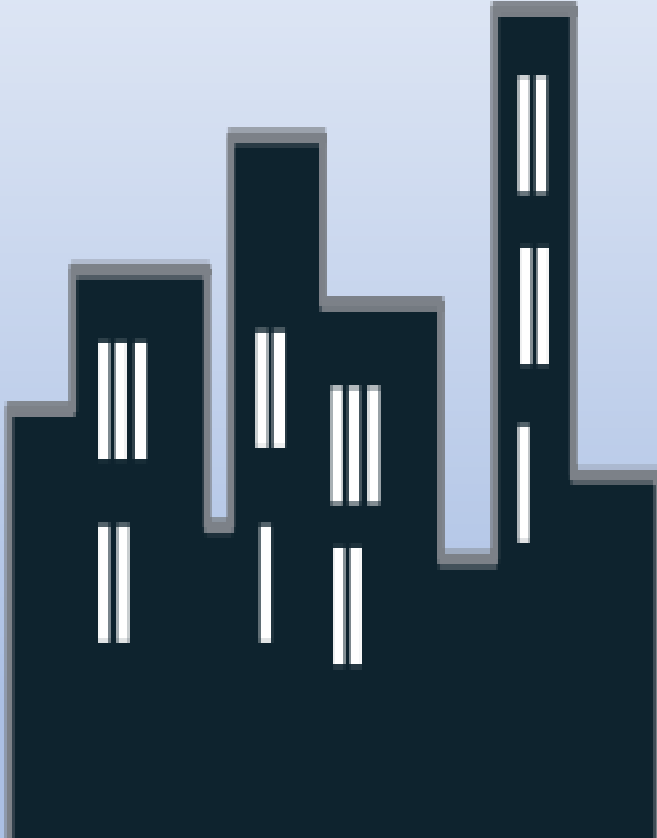
- ❖ One level of taxation




- ❖ No Angel or VC investment



# Corporations




- ❖ Can have one or more owners, known as “shareholders”
- ❖ Separate legal entity from owners
- ❖ Shareholders have limited personal liability

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- ❖ Numerous administrative requirements required by law



- ❖ Can elect to be taxed as a C or S corporation
  - C corporation: two levels of taxation
  - S corporation: one level of taxation
- ❖ S Corporation: restrictions on ownership

- 
- ❖ Angel and VCs invest in C corporations, but not S corporations

# C Corporation: What? Why? When?

- **Double Taxation – Bad for Small Businesses**
- **IPO: Must be a C Corporation**
- **Suitable for High Growth Companies**
- **Not usually suitable for small business**

# S Corporation: What? Why? When?

- **Main benefit: Can save self-employment taxes in certain situations**
- **Requirements: Must meet all requirements:**
  - < 100 shareholders (individuals, not corporations)
  - One class of stock (i.e. kills investments seeking preferred capital)
  - Owned by US citizens or resident aliens

# Limited Liability Companies



- ❖ Can have one or more owners, known as “members”
- ❖ Separate legal entity from its owners
- ❖ Members have limited personal liability

- ❖ Few administrative requirements

- ❖ Taxation:
  - ❖ Single member: disregarded entity
  - ❖ Multi-member: partnerships

- ❖ Investment possible

# Types of Businesses/Situations Appropriate for this Entity

## Advantages

- Avoids double taxation
- Management is flexible
- There are minimal formalities
- Can offer investors preferred returns
- Does not have the ownership restrictions of S corporations

## Disadvantages

- Self-Employment taxes may be higher compared to S corporations
- Cannot raise traditional venture capital



# Need Resources?

Visit [www.businesslawcorps.org](http://www.businesslawcorps.org) for:

- Pro bono legal services
- Legal forms (LLCs, corporations, NDAs)
- Useful information and links



Questions