STARTUP LEGAL STRUCTURES…OTHER THAN CORPORATIONS BY OLEKSIY NESTERENKO

When starting a new venture, most founders choose to incorporate their businesses as LLC, C-Corp, or S-Corp. There are certainly a number of benefits associated with those legal structures, yet they are not perfect for every business.

STARTUP FINANCE MADE EASY by Oleksiy Nesterenko provides an overview of most common legal structures other than corporations, and what type of ventures they are best suited for.

Sole Proprietorship (aka One Man Show)

__Overview__: sole proprietorship is the simplest business form. Although it is not a legal entity, it is a type of business entity that is owned and run by one person and in which there is no legal distinction between the owner and the business. Thus, you are entitled to all of the profits the business makes and responsible for all of the taxes and debts. To put it simply: you are the business.

<u>Best suited for</u>: freelancers of all sorts (marketing consultants, designers, writers, etc)

<u>Forming</u>: It does not require formal filing to get started. A persononly needsto register his/her name and obtain relevant local licenses and permits, and the sole proprietor is ready for business

<u>Taxes</u>:

- Income/losses and expensesare reported by filing a Schedule C, along with the standard Form 1040
- You must also file a Schedule SE with Form 1040, which is used to calculate how much self-employment tax you owe

<u>Pros</u>:

- Simplicity
- Ease of setup and little ongoing formalities
- No need to pay unemployment tax for the sole proprietor

<u>Cons</u>:

- Owners are subject to unlimited personal liability
- Inability to raise capital by selling equity

Partnership (aka Many-headed Dragon)

<u>Overview</u>: legal form of business operation where two or more people share management and profits of the company. Each partner makes contributions to the business (funding, labor, etc.) and in return receives his/her share of profits/losses. There are two types of partnerships:

- General partnership:all of the company's partners manage the company and assume responsibility for the partnership's debts and other obligations.
- Limited partnership: involves two types of partners (general and limited), depending on their level of involvement. General partners own and manage the business, and assume liability for the company's debts. Limited partners serve as investors only, consequently do not have control over the

business’ management and are not subject to the same liabilities as the general partners.

<u>Best suited for</u>: service companies (law firms, accounting practices, etc.)

<u>Forming</u>: business must be registered with the IRS, state and local revenue agencies, and a tax ID number needs to be obtained. Also, it is very important (although not legally required) to draft a partnership agreement that would address how business decisions are made, how profits are shared, how disputes are resolved, and how ownership is transferred/changed among other issues.

<u>Taxes</u>:
- Partnership’s income/losses are reported by filing a tax return (Form 1065)
- Each partner must also report his/her share of income/loss on Schedule K-1 of Form 1065

<u>Pros</u>:
- Share capital needs and workload with partners
- Partnership does not pay taxes on its income but "passes through" profits/losses to the individual partners

<u>Cons</u>:
- General partners are subject to unlimited personal liability
- Relatively expensive to establish and require more legal and accounting services

About the author:

Oleksiy Nesterenko is a finance and strategy consultant for entrepreneurs and early stage companies. Prior to founding his advisory firm [OLEKSIY NESTERENKO](). STARTUP FINANCE (www.oleksiy-nesterenko.com), Oleksiy spent most of his career in investment banking, focusing on technology companies in the USA, Europe, and CIS countries.

Mr. Nesterenko holds an MBA degree from INSEAD business school and BA degree (Magna cum Laude) in Business/Economics from UCLA.

Learn more [click here]