



CHOOSE THE RIGHT BUSINESS STRUCTURE

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WHY FRET?

- ENTREPRENEURS OFTEN AGONIZE
OVER CHOOSING BUSINESS
STRUCTURE
- WHY?



CIRCUMSTANCES MAY CHANGE

- ❑ Choosing your initial business entity is “not until death does us part.”
- ❑ Whether setting up or changing always consult an accountant



BUSINESS ENTITIES

- In Iowa, owners generally choose from the following:
 - Sole Proprietorship
 - Partnership
 - S Corporation
 - C – Corporation
 - Limited Liability Company



SOLE PROPRIETORSHIP

- ❑ Easy to set up.
- ❑ No formal legal documentation required.
- ❑ **Downside:** No limited liability protection



PARTNERSHIP

- ❑ Also easy to set up
- ❑ No formal legal documentation required but written partnership agreement highly recommended
- ❑ Downside: No limited liability protection



S CORPORATION ADVANTAGES

- ❑ Shareholders enjoy limited liability.
- ❑ Ownership interests are transferable
- ❑ Existence does not end with death of shareholder and/or transfer



S CORP. ADVANTAGES (cont.)

- ❑ Pass through tax treatment to avoid double taxation of C Corp.
- ❑ Losses may be available on shareholder's personal income
- ❑ Distributions (but be careful!)



S CORP REQUIREMENTS

- Formalities required for organization and operation.
- Qualification is required for doing business in other states.
- Regular Reporting with State is required



S CORP DOWNSIDE

- ❑ Number of Shareholders is limited to 100.
- ❑ Shareholders typically individuals – no companies
- ❑ No non-resident alien shareholders
- ❑ Only one class of shares



C CORP ADVANTAGES

- Like S Corp, shareholders enjoy limited liability
- Corporate health and retirement plans may be better.
- Health Insurance may be deducted.
- Easier to raise capital



C CORP DISADVANTAGES

- DOUBLE TAXATION
 - But often not as big a problem as might be suggested with proper financial planning.
 - Money is often paid out in form of salaries, benefits and expenses



LLC ADVANTAGES

- ❑ Members enjoy limited liability
- ❑ More flexibility than S corporations
- ❑ No limitation on number or types of members
- ❑ Single Member may file taxes on individual return



LLC advantages cont.

- Assuming LLC taxed as partnership, pass through taxation to partners
- Losses may be available to Members on personal tax returns
- Disproportionate distributions may be made to Members



LLC DISADVANTAGES

- Formalities are required (although somewhat less than corporations)
- Business profits are taxed as income to Members – may be subject to self-employment tax as well as income tax



KEY CHANGES TO IOWA LLC LAW

- Effective January 1, 2009
- Default: LLCs are member managed rather than manager-managed.
- Member is not an agent that can bind the LLC just because Member.
- Statement of Authority



KEY CHANGES TO IOWA LLC LAW

One Member – One Vote

If Members want different application such as based upon % Membership Interests, need to spell out in operating agreement.

January 1, 2011- all LLCs must comply with new law



CHANGING ENTITIES

- TWO MAIN REASONS TO CHANGE ENTITIES
 - TAXES
 - RAISING CAPITAL
- Articles of Merger



QUESTIONS

□ QUESTIONS?

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