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BUSINESS STRUCTURE

Choosing the Correct Business Structure

Deciding to start a new business is often a life-changing experience. To be successful you often must devote substantial time and money over many years. It necessarily involves a certain level of risk-taking but that level can be minimized by choosing the proper business structure within which to operate your business. There are several options and they each offer certain advantages and disadvantages.

Sole Proprietorship

This is the most common structure and easiest to set up and operate. Usually it involves a single individual or, in some instances, a married couple operating a business alone. The sole proprietorship involves no formal structure and provides the owner with complete flexibility, but it offers no asset/liability protection. The business owner will be personally liable for all debts incurred in the operation of the business (meaning all personal assets will be at risk).

Corporations

For many years the corporation has been the primary alternative to the sole proprietorship although that may be changing with the advent of the limited liability company. The corporation is a chartered legal entity that is formed by filing Articles of Incorporation with the Secretary of the Commonwealth. To maintain this status the state requires that the corporation file annual reports, and regulate the manner in which the business is operated. One of the many benefits of operating as a corporation is asset/liability protection. If the corporation is operated in accordance with the requirements of the applicable statute, then the shareholders' personal assets are not at risk. There are also certain tax implications in the determination to operate as a corporation, and these can differ depending upon whether you choose as S Corporation or a C Corporation. This is the newest type of business organization permitted in the Commonwealth. It is sometimes favored over the corporation because it provides for greater flexibility. Like the corporation a properly filed and properly maintained LLC carries with it asset/liability protection. Also, unlike partnerships, a limited liability company can have only one member/owner.

General Partnership

This type of organization is made up of two or more individuals that agree to contribute time, money, labor and skill to a business. The partners share in the profits and losses, and are also personally responsible for business debts. There is no asset/liability protection. Operation of the business is very flexible and is usually on a written partnership agreement.

Limited Partnership

This entity is similar to the general partnership in that it has a group of individuals coming together to operate a business, but there are two levels of partners. The general partners manage the business and share fully in profits and losses. The general partners are personally liable for partnership debts. Limited partners will share in profits and losses, but usually only to the extent of their investment. Limited partners usually do not have operational responsibilities and are not generally liable.