

“Get Your Business
Organized:
S-Corps
LLCs
And More.”

Greenbacks and
Associates Group
*Your Professional
Paralegal*

www.greenbacksandassociatesgroup

Want to start a business, but
you are not sure where to
start?



BUSINESS

You have your business name
chosen.

You know what your product
and/or service will be.

Now you must chose your
business structure.

A person wearing a dark pinstriped suit jacket and a white shirt is holding a large white rectangular sign with both hands. The sign has the text "Time to think about SUCCESS" written on it in a black, handwritten-style font. The word "SUCCESS" is significantly larger and bolder than the other words. The person's hands are visible, and they appear to be wearing rings. The background behind the sign is plain white.

Time
to think about
SUCCESS

Entrepreneurship/ Entrepreneur

Anyone starting their own business is considered an entrepreneur.



Entrepreneurs

Bill Gates started Microsoft Corporation, which grew into the giant software and Internet company.



Entrepreneurs

Michael Dell started Dell Computers as a mail-order business; it has become a leader in computer sales.



Entrepreneurial Forms of Conducting Business

- Entrepreneurs contemplating starting a business have many options when choosing the legal form in which to conduct the business
- Each of these forms of business has advantages and disadvantages for the entrepreneur.

Entrepreneurial Forms of Conducting Business

The major business
structures are:

- Sole Proprietorships
- General Partnerships
- Limited Partnerships
 - Limited Liability
Companies (LLC)
 - Corporations

Sole Proprietorship

This is the simplest form of business organization. There can be only one owner of a sole proprietorship, and the owner of the business is the Sole Proprietor. This is the most common form of business in the US.



Advantages of a Sole Proprietorship

- Easy and does not cost a lot
- The owner has the right to make all management decisions concerning the business, including hiring and firing
- The sole proprietor owns all of the business and has the right to receive all of the business's profits
 - Operation as a sole proprietorship may be advantageous under federal and state tax laws.

Disadvantages of a Sole Proprietorship

- The sole proprietor's access to the capital is limited to personal funds plus any loans the sole proprietor can obtain
- The sole proprietor is legally responsible for the business' contracts and the torts, the sole proprietor or any of his or her employees commit in the course of employment
- In addition, sole proprietors – as with all business owners- must pay self-employment tax.

Formation of a Sole Proprietorship

- There are no formalities, and no federal or state government approval is required for formation
 - However, governments require all businesses, including sole proprietorships, to obtain licenses and/or permits to do business within certain industries. For example: restaurants, liquors stores, insurance companies
- If you would like to hire employees, you must obtain a tax identification number from the IRS. (Form SS-4)
- You must obtain (if you have employees) an employment identification number (EIN) from the IRS.

Personal Liability of Sole Proprietors

- You bear the risk of loss of the business, that is, the owner will lose his or her entire capital contribution if the business fails
- You have *unlimited personal liability*. Therefore, creditors may recover claims against the business. For example: personal assets, home, car, bank account.

Taxation of a Sole Proprietorship

- This is not a separate legal entity, so it does not pay taxes at the business level
- Instead, the earnings and losses from a sole proprietorship are reported on the sole proprietor's personal income tax filing. Reported on a (Schedule C)
- Must also pay self-employment tax (SE), and a Social Security and Medicare tax.

Schedule C

SCHEDULE C
(Form 1040)

Profit or Loss From Business
(Sole Proprietorship)

OMB No. 1545-0074

2018
Attachment
Sequence No. **09**

Department of the Treasury
Internal Revenue Service (99)

▶ Go to www.irs.gov/ScheduleC for instructions and the latest information.

▶ Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

Name of proprietor		Social security number (SSN)	
Principal business or profession, including product or service (see instructions)		B Enter code from instructions	
Business name. If no separate business name, leave blank.		D Employer ID number (EIN) (see instr.)	
E Business address (including suite or room no.) ▶ City, town or post office, state, and ZIP code			
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶			
G Did you "materially participate" in the operation of this business during 2018? If "No," see instructions for limit on losses . . . <input type="checkbox"/> Yes <input type="checkbox"/> No			
H If you started or acquired this business during 2018, check here <input type="checkbox"/>			
I Did you make any payments in 2018 that would require you to file Form(s) 1099? (see instructions) <input type="checkbox"/> Yes <input type="checkbox"/> No			
J If "Yes," did you or will you file required Forms 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No			

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1		
2	Returns and allowances	2		
3	Subtract line 2 from line 1	3		
4	Cost of goods sold (from line 42)	4		
5	Gross profit. Subtract line 4 from line 3	5		
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6		
7	Gross income. Add lines 5 and 6 ▶	7		

Part II Expenses. Enter expenses for business use of your home only on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):	20a	
				a	Vehicles, machinery, and equipment		



General Partnerships

General Partnerships

A general partnership, or partnership, is a voluntary association of two or more persons for carrying on a business as co-owners for profit.



Formation of a General Partnerships

- This may be formed with little or no formality
- Co-ownership of a business is essential to create a partnership
- The most important factor in determining co-ownership is whether the parties share the business' profits and management responsibility.

Formation of a General Partnerships

- An agreement to form a partnership may be oral, written, or implied
- A written agreement is advised, it is important evidence of the terms of the agreement, particularly if a dispute arises among the partners
- A written partnership agreement is called a *Partnership Agreement*, or *Articles of Partnership*.

General Partners Liability

- Partners of a general partnership have *personal liability* for the contracts and torts of the partnership; and
- Partners are jointly and several liable for torts and breaches of trust, even if a partner did not participate in the commission of the act.

Taxation of General Partnerships

- Partnerships do not pay federal income taxes
- Instead, the income and losses of the partnership flow onto and have to be reported on the individual partners' personal income tax returns. This is called "flow-through" taxation.

Taxation of General Partnerships

Schedule K-1

Partners must include partnership information on their personal tax returns. This income or losses are reported on a (Schedule K-1).

2018 Schedule K-1 (Form 1065)

1 / 2



Schedule K-1 (Form 1065) 2018
Department of the Treasury Internal Revenue Service
For calendar year 2018, or tax year beginning / / 2018 ending / /

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1 Ordinary business income (loss)	15 Credits
2 Net rental real estate income (loss)	
3 Other net rental income (loss)	16 Foreign transactions
4 Guaranteed payments	
5 Interest income	
6a Ordinary dividends	
6b Qualified dividends	
6c Dividend equivalents	
7 Royalties	
8 Net short-term capital gain (loss)	17 Alternative minimum tax (AMT) items
9a Net long-term capital gain (loss)	
9b Collectibles (28%) gain (loss)	
9c Unrecaptured section 1250 gain	18 Tax-exempt income and nondeductible expenses
10 Net section 1231 gain (loss)	
11 Other income (loss)	

Part I Information About the Partnership

A Partnership's employer identification number

B Partnership's name, address, city, state, and ZIP code

C IRS Center where partnership filed return

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

F Partner's name, address, city, state, and ZIP code

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I What type of entity is this partner?

Taxation of General Partnerships

Form 1065

Every partnership must file a (Form 1065) to the IRS, to report its income, gains, losses, deduction, credits, etc.

2018 Form 1065

1 / 5



1065		U.S. Return of Partnership Income		OMB No. 1545-0123
Form 1065 Department of the Treasury Internal Revenue Service		For calendar year 2018, or tax year beginning _____, 2018, ending _____, 20_____		2018
		▶ Go to www.irs.gov/Form1065 for instructions and the latest information.		
A Principal business activity	Name of partnership	D Employer identification number		
B Principal product or service	Type or Print Number, street, and room or suite no. If a P.O. box, see instructions.	E Date business started		
C Business code number	City or town, state or province, country, and ZIP or foreign postal code	F Total assets (see instructions) \$ _____		
G Check applicable boxes: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change (5) <input type="checkbox"/> Amended return				
H Check accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶ _____				
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year. ▶ _____				
J Check if Schedules C and M-3 are attached ▶ <input type="checkbox"/>				

Caution: Include only trade or business income and expenses on lines 1a through 22 below. See instructions for more information.

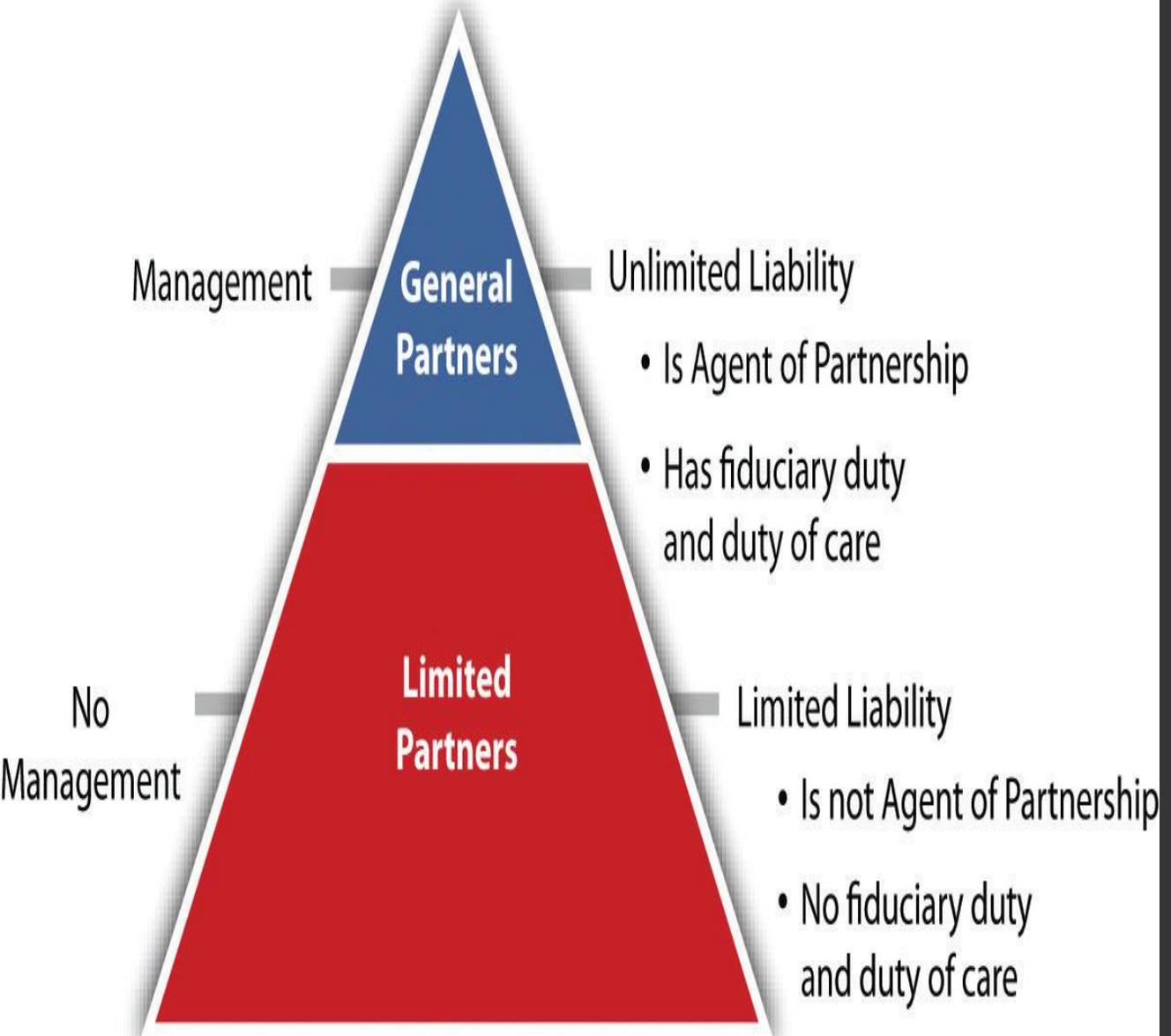
Income	1a Gross receipts or sales	1a		
	b Returns and allowances	1b		
	c Balance. Subtract line 1b from line 1a	1c		
	2 Cost of goods sold (attach Form 1125-A)	2		
	3 Gross profit. Subtract line 2 from line 1c	3		
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)	4		
	5 Net farm profit (loss) (attach Schedule F (Form 1040))	5		
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	6		
	7 Other income (loss) (attach statement)	7		
	8 Total income (loss). Combine lines 3 through 7	8		
	9 Salaries and wages (other than to partners) (less employment credits)	9		
	10 Guaranteed payments to partners	10		
11 Repairs and maintenance	11			
12 Bad debts	12			





Limited Partnerships

There are General and Limited Partners Involved in a Limited Partnership



Formation of Limited Partnerships

- They include both general (manager) and limited (investor) partners
- They are used for such business ventures as investing in real estate, drilling oil and gas wells, investing in movie productions
- They must have one or more general partners and one or more limited partners; there are no upper limits on the number of general or limited partners allowed
- **A person may be both a general partner and a limited partner.**

Formation of a Limited Partnership

General Partners

They invest capital, manage the business, and are personally liable for partnership debts.

Limited Partners

They invest capital but do not participate in management and are not personally liable for partnership debts beyond their capital contributions.

Formation of a Limited Partnership

- The creation of a limited partnership is formal and requires public disclosure
- **Two or more persons** must execute and sign a *Certificate of Limited Partnership* and file it with the secretary of state
- Although not required, the partners can draft and execute a *Limited Partnership Agreement*. That sets forth the rights, voting rights and duties of the general and limited partners, etc.
 - One of the following terms or abbreviations **must** be included in the name: Limited Partnership, Limited, Company, L.P., LP, Ltd, Co.

Liability of General Partners vs. Limited Partners

General Partners

- have ***unlimited liability*** for the debts and obligations of the limited partnership
- They also have ***unlimited personal liability*** for the debts and obligations of the limited partnership.

Limited Partners

- Limited partners have ***limited liability*** for the debts and obligations of the limited partnership
- Limited partners are liable only for the debts and obligations up to their capital contributions
 - they are ***not personally liable*** for the debts and obligations of the limited partnership.

Management of Limited Partnerships

General Partners

• General partners have the right to manage the affairs of the limited partnership.

Limited Partners

- As a trade off for limited liability, limited partners give up their right to participate in the control and management of the limited partnership; and
- They have no right to bind the partnership to contracts or other obligations; and
- A limited partner is liable as a general partner if the limited partner's participation in the control of the business is substantially the same as that of a general partner.

Different Types of Limited Partnerships

- Master Limited Partnerships (MLP)
- Limited Liability Partnerships (LLP)
- Limited Liability Limited Partnerships (LLLP)



Master Limited Partnership (MLP)

- A limited partnership whose limited partnership interests are traded on organized securities exchanges such as the New York Stock Exchange
- By law MLPs may engage in only certain businesses, such as petroleum and natural gas extraction, businesses involving pipelines for the transportation of natural resources, financial services, and some real estate enterprises
- In most MLPs, a corporation remains the general partner of the MLP, and public investors are the limited partners.

Limited Liability Partnership (LLP)

- There does not have to be a general partner who is personally liable for the debts and obligations of the partnership
- Instead, all partners are limited partners who stand to lose only their capital contribution if the partnership fails
 - None of the partners are personally liable for the debts and obligations of the partnership beyond their capital contribution.

Limited Liability Partnership (LLP)

- The law restricts the use of LLPs to certain types of professionals, such as accounts, lawyers, and doctors
- Nonprofessionals cannot use the LLP form of partnership
- One of the following terms or abbreviations is **required** to be included in the entity name: Limited Liability Partnership, Registered Limited Liability Partnership, Limited, Ltd., L.L.P., LLP, RLLP, R.L.L.P.

LLP Liability Insurance

- LLP law restricts the use of LLPs to certain types of professionals, such as accountants and lawyers
- Many state laws require LLPs to carry a minimum of \$1 million of liability insurance that covers negligence, wrongful acts, and misconduct by partners or employees of the LLP
- This requirement guarantees that injured third parties will have compensation to recover for their injuries and is a trade-off for permitting partners to have limited liability.

Limited Liability Limited Partnership (LLLP)

- A special type of limited partnership that has both general partners and limited partners where both the general and limited partners have limited liability and are *not personally liable* for the debts of the LLLP. The debts of an LLLP are solely the responsibility of the partnership
- Most use of the LLLP form of business has been for real estate investments
 - One of the following terms or abbreviations is **required** to be included in the entity name: Limited Liability Limited Partnership, Registered Limited Liability Limited Partnership, Limited Partnership, Ltd., Company, Co., L.P., LP., L.L.L.P, LLLP, R.L.L.L.P., RLLLLP.

Taxation of All Limited Partnerships

- Partnerships do not pay federal income taxes
- Instead, the income and losses of the partnership flow onto and have to be reported on the individual partners' personal income tax returns. This is called "flow-through" taxation
 - Every partnership must file a (Form 1065) to the IRS, to report its income, gains, losses, deduction, credits, etc.
- Partners must include partnership information on their personal tax returns. This income or losses are reported on a (Schedule K-1).

Tax Forms for Partnerships

Tax Form 1065

2018 Form 1065

1 / 5



Form 1065		U.S. Return of Partnership Income		OMB No. 1545-0123
Department of the Treasury Internal Revenue Service		For calendar year 2018, or tax year beginning _____, 2018, ending _____, 20_____.		2018
		▶ Go to www.irs.gov/Form1065 for instructions and the latest information.		
A Principal business activity	Name of partnership	D Employer identification number		
B Principal product or service	Type or Print	E Date business started		
C Business code number	Number, street, and room or suite no. If a P.O. box, see instructions.	F Total assets (see instructions)		
	City or town, state or province, country, and ZIP or foreign postal code	\$		

- G** Check applicable boxes: (1) Initial return (2) Final return (3) Name change (4) Address change (5) Amended return
- H** Check accounting method: (1) Cash (2) Accrual (3) Other (specify) ▶ _____
- I** Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year. ▶ _____
- J** Check if Schedules C and M-3 are attached.

Caution: Include **only** trade or business income and expenses on lines 1a through 22 below. See instructions for more information.

Income	1a Gross receipts or sales	1a	
	b Returns and allowances	1b	
	c Balance. Subtract line 1b from line 1a	1c	
	2 Cost of goods sold (attach Form 1125-A)	2	
	3 Gross profit. Subtract line 2 from line 1c	3	
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)	4	
	5 Net farm profit (loss) (attach Schedule F (Form 1040))	5	
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	6	
	7 Other income (loss) (attach statement)	7	
	8 Total income (loss). Combine lines 3 through 7	8	
	9 Salaries and wages (other than to partners) (less employment credits)	9	
	10 Guaranteed payments to partners	10	
11 Repairs and maintenance	11		
12 Bad debts	12		



Tax Forms for Partnerships

Tax Form Schedule K1

2018 Schedule K-1 (Form 1065)

1 / 2



Schedule K-1 (Form 1065)

2018

Department of the Treasury
Internal Revenue Service

For calendar year 2018, or tax year

beginning / / 2018 ending / /

Partner's Share of Income, Deductions, Credits, etc.

▶ See back of form and separate instructions.

Final K-1 Amended K-1

OMB No. 1545-0123

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	15	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
6c	Dividend equivalents		
7	Royalties		
8	Net short-term capital gain (loss)	17	Alternative minimum tax (AMT) items
9a	Net long-term capital gain (loss)		
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain	18	Tax-exempt income and nondeductible expenses
10	Net section 1231 gain (loss)		
11	Other income (loss)		

Part I Information About the Partnership

A Partnership's employer identification number

B Partnership's name, address, city, state, and ZIP code

C IRS Center where partnership filed return

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number

F Partner's name, address, city, state, and ZIP code

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I1 What type of entity is this partner?

11
17

+

-

Limited Liability Companies (LLC)

Limited Liability Companies
(LLC)
are the most favorable
business structure

LLC

Limited Liability
Company

Formation of Limited Liability Companies (LLC)

- An LLC is an unincorporated business entity that combines the most favorable attributes of general partnerships, limited partnerships, and corporations
- Certain professionals, such as accountants, lawyers, and doctors, **cannot** operate practices as LLCs
- An LLC can be organized in only one state, even though it can conduct business in all other states
- When starting a new LLC, the name **must** contain the words *limited liability company* or *limited company* or the abbreviation *L.L.C.*, *LLC*, *L.C.*, or *LC*. Limited may be abbreviated as *Ltd.*, and company may be abbreviated as *Co.*

Formation of Limited Liability Companies (LLC)

- An LLC may be organized by **one or more persons**
- Members of an LLC may enter into an *Operating Agreement* that regulates the affairs of the company and the conduct of its business and governs relations among the members, managers, and company
 - An LLCs *Operating Agreement* may provide that a member's ownership interest may be evidenced by a *Certificate of Interest*. The certificate of interest acts the same as a stock certificate issued by a corporation.

Formation of Limited Liability Companies (LLC)

- The exact LLC definition varies slightly from state to state but, basically, an LLC is a business entity that is legally separate from its owners, who are known as “members.” An LLC can have one member or many members
- Small business owners often choose to form an LLC instead of a corporation because LLCs offer more flexibility in the way they are managed and usually have fewer recordkeeping and reporting obligations than corporations.

Management of Limited Liability Companies (LLC)

Member-Managed LLC

This type of LLC, the members of the LLC have the right to manage the LLC.

Manager-Managed LLC

This type of LLC, the members designate a manager or managers to manage the LLC, and by doing so, they delegate their management rights to the manager or managers. Designated manager or managers have the authority of manage the LLC, and the members no longer have the right to manage the LLC.

Liability of Limited Liability Companies (LLC)

- Managers of LLCs are not personally liable for the debts, obligations, and liabilities of the LLC they manage
- Members are not personally liable to third parties for the debts, obligations, and liabilities of an LLC beyond their capital contribution
 - Except for the tortfeasors rule
 - This rule applies to members and managers of LLCs. If a member or a manager of an LLC negligently causes injury or death to another person, he or she is personally liable to the injured person or the heirs of the deceased person
- The debts, obligations, and liabilities of an LLC, whether arising from contracts, torts, or otherwise, are solely those of the LLC.

Taxation of Limited Liability Companies (LLC)

An LLC may elect to be taxed as an:

- Partnership

or

- Corporation

or

- S-Corporation

or

- Sole Proprietorship.

Taxation of Limited Liability Companies (LLC)

An LLC may elect to be taxed as a **Partnership:**

- by filing a (Form 1065) with the IRS, to report its income, gains, losses, deduction, credits, etc.



1065 U.S. Return of Partnership Income OMB No. 1545-0123
Form Department of the Treasury Internal Revenue Service For calendar year 2018, or tax year beginning _____, 2018, ending _____, 2018
Go to www.irs.gov/Form1065 for instructions and the latest information.

A Principal business activity	Name of partnership	D Employer identification number
B Principal product or service	Type or Print	E Date business started
C Business code number	Number, street, and room or suite no. If a P.O. box, see instructions.	F Total assets (see instructions)
	City or town, state or province, country, and ZIP or foreign postal code	\$

G Check applicable boxes: (1) Initial return (2) Final return (3) Name change (4) Address change (5) Amended return
H Check accounting method: (1) Cash (2) Accrual (3) Other (specify) ▶
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year. ▶
J Check if Schedules C and M-3 are attached. ▶

Caution: Include only trade or business income and expenses on lines 1a through 22 below. See instructions for more information.

Income	1a	Gross receipts or sales	1a		
	b	Returns and allowances	1b		
	c	Balance. Subtract line 1b from line 1a	1c		
	2	Cost of goods sold (attach Form 1125-A)	2		
	3	Gross profit. Subtract line 2 from line 1c	3		
	4	Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)	4		
	5	Net farm profit (loss) (attach Schedule F (Form 1040))	5		
	6	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	6		
	7	Other income (loss) (attach statement)	7		
	8	Total income (loss). Combine lines 3 through 7	8		
	9	Salaries and wages (other than to partners) (less employment credits)	9		
	10	Guaranteed payments to partners	10		
11	Repairs and maintenance	11			
12	Bad debts	12			



Taxation of Limited Liability Companies (LLC)

An LLC may elect to be taxed as a **Corporation:**

- by filing a Form 1120 to report its income, gains, losses, deductions, and credits, etc.



Form 1120		U.S. Corporation Income Tax Return		OMB No. 1545-0123
Department of the Treasury Internal Revenue Service		For calendar year 2018 or tax year beginning _____, 2018, ending _____, 20 _____		2018
▶ Go to www.irs.gov/Form1120 for instructions and the latest information.				
A Check if:		Name		B Employer identification number
1a Consolidated return (attach Form 851)	<input type="checkbox"/>	TYPE OR PRINT	Number, street, and room or suite no. If a P.O. box, see instructions.	C Date incorporated
b Life/other consolidated return	<input type="checkbox"/>		City or town, state or province, country, and ZIP or foreign postal code	D Total assets (see instructions)
2 Personal holding co. (attach Sch. PH)	<input type="checkbox"/>			\$
3 Personal service corp. (see instructions)	<input type="checkbox"/>			
4 Schedule M-3 attached <input type="checkbox"/>	E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change			
Income				
1a Gross receipts or sales		1a		
b Returns and allowances		-1b		
c Balance. Subtract line 1b from line 1a		1c		
2 Cost of goods sold (attach Form 1125-A)		2		
3 Gross profit. Subtract line 2 from line 1c		3		
4 Dividends and inclusions (Schedule C, line 23, column (a))		4		
5 Interest		5		
6 Gross rents		6		
7 Gross royalties		7		
8 Capital gain net income (attach Schedule D (Form 1120))		8		
9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)		9		
10 Other income (see instructions—attach statement)		10		
11 Total income. Add lines 3 through 10		▶ 11		
Limitations on deductions.				
12 Compensation of officers (see instructions—attach Form 1125-E)		▶ 12		
13 Salaries and wages (less employment credits)		13		
14 Repairs and maintenance		14		
15 Bad debts		15		
16 Rents		16		
17 Taxes and licenses		17		
18 Interest (see instructions)		18		
19 Charitable contributions		19		



Taxation of Limited Liability Companies (LLC)

An LLC may elect to be taxed as a **S-Corporation:**

- by filing Form 1120S to report its income, gains, losses, deductions, credits, etc., if this election is made, a Form 2553 must be filed with the IRS.

Form 1120S		U.S. Income Tax Return for an S Corporation		OMB No. 1545-0123
Department of the Treasury Internal Revenue Service		▶ Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation. ▶ Go to www.irs.gov/Form1120S for instructions and the latest information.		2018
For calendar year 2018 or tax year beginning _____, 2018, ending _____, 20				
A S election effective date	Name	D Employer identification number		
B Business activity code number (see instructions)	TYPE OR PRINT	Number, street, and room or suite no. If a P.O. box, see instructions.		E Date incorporated
		City or town, state or province, country, and ZIP or foreign postal code		F Total assets (see instructions)
C Check if Sch. M-3 attached <input type="checkbox"/>				\$
G Is the corporation electing to be an S corporation beginning with this tax year? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach Form 2553 if not already filed				
H Check it: (1) <input type="checkbox"/> Final return (2) <input type="checkbox"/> Name change (3) <input type="checkbox"/> Address change (4) <input type="checkbox"/> Amended return (5) <input type="checkbox"/> S election termination or revocation				
I Enter the number of shareholders who were shareholders during any part of the tax year ▶				
Caution: Include only trade or business income and expenses on lines 1a through 21. See the instructions for more information.				
Income	1a Gross receipts or sales	1a		
	b Returns and allowances	1b		
	c Balance. Subtract line 1b from line 1a		1c	
	2 Cost of goods sold (attach Form 1125-A)		2	
	3 Gross profit. Subtract line 2 from line 1c		3	
	4 Net gain (loss) from Form 4797, line 17 (attach Form 4797)		4	
5 Other income (loss) (see instructions—attach statement)		5		
6 Total income (loss). Add lines 3 through 5 ▶		6		
Instructions for limitations	7 Compensation of officers (see instructions—attach Form 1125-E)		7	
	8 Salaries and wages (less employment credits)		8	
	9 Repairs and maintenance		9	
	10 Bad debts		10	
	11 Rents		11	
	12 Taxes and licenses		12	
	13 Interest (see instructions)		13	
	14 Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)		14	

Taxation of Limited Liability Companies (LLC)

An LLC may elect to be taxed as a **Sole Proprietorship:**

- by filing a (Form Schedule C) with the IRS, to report its income, and expenses.

SCHEDULE C (Form 1040)		Profit or Loss From Business (Sole Proprietorship)		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Go to www.irs.gov/ScheduleC for instructions and the latest information. ▶ Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.		2018 Attachment Sequence No. 09	
Name of proprietor			Social security number (SSN)		
A Principal business or profession, including product or service (see instructions)			B Enter code from instructions		
C Business name. If no separate business name, leave blank.			D Employer ID number (EIN) (see instr.)		
E Business address (including suite or room no.) ▶ City, town or post office, state, and ZIP code					
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶					
G Did you "materially participate" in the operation of this business during 2018? If "No," see instructions for limit on losses . . . <input type="checkbox"/> Yes <input type="checkbox"/> No					
H If you started or acquired this business during 2018, check here . . . <input type="checkbox"/>					
I Did you make any payments in 2018 that would require you to file Form(s) 1099? (see instructions) . . . <input type="checkbox"/> Yes <input type="checkbox"/> No					
J If "Yes," did you or will you file required Forms 1099? . . . <input type="checkbox"/> Yes <input type="checkbox"/> No					
Part I Income					
1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . <input type="checkbox"/>			1		
2 Returns and allowances			2		
3 Subtract line 2 from line 1			3		
4 Cost of goods sold (from line 42)			4		
5 Gross profit. Subtract line 4 from line 3			5		
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)			6		
7 Gross income. Add lines 5 and 6			7		
Part II Expenses. Enter expenses for business use of your home only on line 30.					
8 Advertising		8		18 Office expense (see instructions)	18
9 Car and truck expenses (see instructions).		9		19 Pension and profit-sharing plans	19
10 Commissions and fees		10		20 Rent or lease (see instructions):	
				a Vehicles, machinery, and equipment	20a

What's the Difference When it Comes to Taxes

For many small businesses, the main difference is in the way business owners pay Medicare and Social Security taxes—also known as "self employment taxes."

Some LLC owners can save money on these taxes by choosing

S-Corporation taxation.

If a Single-Member LLC is Taxed as a Sole Proprietorship

The LLC member reports business income and expenses on his or her personal income tax return and pays personal income tax on company profits. The member is considered self-employed and thus is responsible for paying Social Security and Medicare taxes on those profits.

If a Single-Member LLC is Taxed as a S-Corporation

The member can be considered an employee of the business. An owner-employee must be paid a reasonable salary. The LLC will report the salary as a business expense, and the owner will report both the salary and any remaining business profit on his or her personal tax return.

However, unlike the sole proprietor LLC owner who must pay Medicare and Social Security taxes on all profits, the S corporation and its owner will only pay these taxes on the owner's salary. The remaining profits are not subject to these taxes.

Benefits of S-Corporation vs. LLC Taxation

To evaluate the benefits of S-Corp. vs. LLC taxation, you must consider whether changing to S-Corp. tax status will save you money. Find out what a reasonable salary would be for a person who does what you do. The IRS scrutinizes owner-shareholder salaries, so it is important not to set an artificially low salary for yourself. Then ask, if you paid yourself that salary, would your business have any profit left over? If the answer is no, then S corp. taxation may not help you.

Benefits of S-Corporation vs. LLC Taxation

If your business profits are greater than your reasonable salary, S-Corp. taxation may save you money. Consider also that your tax return will be somewhat more complex and, if you don't have other employees, you will have to set up tax withholding. An accountant can advise you on other benefits and consequences of choosing LLC vs. S-Corp. taxation for your business.

Benefits of S-Corporation vs. LLC Taxation

If you've already formed your LLC but are unhappy with the tax consequences headed your way, you can change your tax status. In general, you can elect LLC, S-Corp. status at any time during the tax year prior to the year you want the election to take effect, or during the first two and a half months of the current year.

New businesses have approximately 75 days to elect a different tax status.

Partnerships

vs.

LLCs

- Regarding liability, an LLC is always better than a General Partnership.
- You and your partners can form an LLC and limit your personal liability.

Limited Partnerships (LP)

vs.

LLCs

- An LLC is usually more advantageous than an LP, since the LLC provides personal liability protection for all owners.
- Also, all members of an LLC have at least some say in how the business is managed, whereas limited partners in an LP have no say in how the business is managed.
- If, for some reason, an LP would have advantages, you can still form an LLC to serve as the general partner and thereby limit personal liability.

Limited Partnerships (LP)

vs.

LLCs

You may want to choose an LP over an LLC if one or more of the following are true:

- You don't want the investor-owners to have any say in how the business is run.
- You are comfortable with having personal liability.

Limited Liability Partnerships (LLP)

vs.

LLCs

- Although the partners in a LLP have limited personal liability, an LLC may provide more comprehensive protection.
- However, not all states permit LLPs. Also, some states only allow people engaged in certain professions to form an LLP (typically lawyers, accountants, architects and engineers), and prohibit them from forming an LLC.
- Some states call it a professional limited liability partnership (PLLP) or a registered limited liability partnership (RLLP).

Limited Liability Limited Partnerships (LLLP)

vs.

LLCs

LLLPs are currently available in Alabama, Arizona, Arkansas, Colorado, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kentucky, Maryland, Minnesota, Missouri, Montana, Nevada, North Carolina, North Dakota, Oklahoma, Pennsylvania, South Dakota, Texas, Virginia, Washington and Wyoming. California does not allow formation of an LLLP, but recognizes LLLPs formed in other states (for an \$800 annual registration fee).

Limited Liability Limited Partnerships (LLLP)

vs.

LLCs

- LLCs and LLLPs provide the same personal liability protection.
- You may want to choose an LLLP over an LLC if one or more of the following are true:
 1. You don't want investor-owners to have any say in how the business is run.
 2. You don't plan to operate in a state that does not recognize LLLPs.

Corporate Formation

Corporations

Corporations are the most dominant form of business organization in the US., generating over 85% of the country's gross business receipts.

The Corporate States of America



Formation of a Corporation

- They are a separate legal entity for most purposes
 - They can sue or be sued in their own names, enter into and enforce contracts, hold title to and transfer property, and be found civilly and criminally liable for violations of law
 - Because corporations cannot be put in prison, the normal criminal penalty is the assessment of a fine, loss of a license, or another sanction
 - They can be incorporated in only one state, even though it can do business in all other states
 - The name of the corporation **must** contain the word *corporation*, *company*, *incorporated*, or *limited* or an abbreviation of one of these words (*Corp.*, *Co.*, *Inc.*, *Ltd.*).

Formation of a Corporation

- The *Articles of Incorporation* is the basic governing document of a corporation. It must be drafted and filed with, and approved by, the state before the corporation can be officially incorporated
 - In addition to the Articles of Incorporation, corporations are governed by their *bylaws*. These are a detailed set of rules adopted by the board of directors after a corporation is incorporated that contains provisions for managing the business and the affairs of the corporation
- An organizational meeting of the initial directors of the corporation must be held after the Articles of Incorporation are filed.

The Structure of a Corporation

- *Corporation* is a fictitious legal entity that is created according to statutory requirements
- *Shareholders* are persons who owns shares of stock in a corporation or joint-stock company. They are the owners of the corporation
- *Board of Directors* are a panel of decision makers, the members of which are elected by the shareholders
- *Officers* are employees of the corporation who are appointed by the board of directors to manage the day-to-day operations of the corporations.

Financing the Corporation

A corporation needs to finance the operation of its business. The most common way to do this is by selling equity securities and debt securities.



Financing the Corporation Equity Securities

Common Stock



Preferred Stock

Financing the Corporation Equity Securities

Common Stock



- A type of equity security that represents the residual value of a corporation
 - Common stock has no preferences
- Common stock does not have a fixed maturity date.

Financing the Corporation

Equity Securities

Preferred Stock



- A type of equity security that is given certain preferences and rights over common stock
 - Preferred stock can be issued in classes or series.

Liability of a Corporation and its Shareholders

- As a separate legal entity, corporations are liable for their own debts and obligations
- Generally, the shareholders have *only limited liability*. They are liable only to the extent of their capital contributions and do not have personal liability for the corporation's debts and obligations.

Different Types of
Corporations:
C-Corporations
and
S-Corporations

C-Corporation

A C-Corporation is a corporation that does not qualify to be or does not elect to be federally taxed as a S-Corporation

FedEx®
Corporation

S-Corporation

Unlike an LLC or a C-Corporation, a S-Corporation is **NOT** a type of business entity. The S-Corp. designation refers to the way a business has chosen to be taxed under the Internal Revenue Code.



Election of a S-Corporation

A

S-Corporation election is made by filing Form 2553 with the IRS.

Form 2553 (Rev. March 2005) Department of the Treasury Internal Revenue Service	Election by a Small Business Corporation (Under section 1362 of the Internal Revenue Code) ▶ See Parts II and III on back and the separate instructions. ▶ The corporation may either send or fax this form to the IRS. See page 2 of the instructions.	OMB No. 1545-0146
---	---	-------------------

Notes: 1. Do not file Form 1120S, U.S. Income Tax Return for an S Corporation, for any tax year before the year the election takes effect.
 2. This election to be an S corporation can be accepted only if all the tests are met under *Who May Elect* on page 1 of the instructions; all shareholders have signed the consent statement; an officer has signed this form; and the exact name and address of the corporation and other required form information are provided.

Part I Election Information	
Name (see instructions) _____ Number, street, and room or suite no. (if a P.O. box, see instructions.) _____ City or town, state, and ZIP code _____	A Employer identification number _____ B Date incorporated _____ / ____ / ____ C State of incorporation _____
D Check the applicable box(es) if the corporation, after applying for the EIN shown in A above, changed its name <input type="checkbox"/> or address <input type="checkbox"/>	
E Election is to be effective for tax year beginning (month, day, year) _____ / ____ / ____	
F Name and title of officer or legal representative who the IRS may call for more information _____	G Telephone number of officer or legal representative (____) _____
H If this election takes effect for the first tax year the corporation exists, enter month, day, and year of the earliest of the following: (1) date the corporation first had shareholders, (2) date the corporation first had assets, or (3) date the corporation began doing business _____ / ____ / ____	
I Selected tax year: Annual return will be filed for tax year ending (month and day) _____	

J Name and address of each shareholder or former shareholder required to consent to the election. (See the instructions for column K)	K Shareholders' Consent Statement. Under penalties of perjury, we declare that we consent to the election of the above-named corporation to be an S corporation under section 1362(a) and that we have examined this consent statement, including accompanying schedules and statements, and to the best of our knowledge and belief, it is true, correct, and complete. We understand our consent is binding and may not be withdrawn after the corporation has made a valid election. (Sign and date below.)		L Stock owned or percentage of ownership (see instructions)		M Social security number or employer identification number (see instructions)	N Shareholder's tax year ends (month and day)
	Signature	Date	Number of shares or percentage of ownership	Date(s) acquired		

Under penalties of perjury, I declare that I have examined this election, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature of officer ▶ _____	Title ▶ _____	Date ▶ _____
------------------------------	---------------	--------------

How is a S-Corporation Taxed

- S-Corporation's income is taxed through its shareholders rather than through the corporation itself. Only corporations with a limited number of shareholders can elect S-Corporation tax status under Subchapter S or the internal Revenue Code
- If a corporation elects to be taxed as a S-Corporation, pays no federal income tax at the corporate level
 - As in a Partnership, the corporation's income or loss flows to the shareholders' individual income tax returns.

How is a C-Corporation Taxed

- C-Corporation's income is taxed through the corporation itself rather than through its shareholders
- A C-Corporation must pay federal income tax at the corporate level
- In addition, if a C-Corporation distributes its profits to shareholders in the form of dividends, the shareholders must pay personal income tax on the dividends; and
- This causes double taxation.

Taxation of a Corporation

Form 1120S is used for a S-Corporation to report the income, gains, losses, deductions, and credits and to figure the income tax liability of a corporation

Form 1120S	U.S. Income Tax Return for an S Corporation		OMB No. 1545-0123
Department of the Treasury Internal Revenue Service	<p>▶ Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.</p> <p>▶ Go to www.irs.gov/Form1120S for instructions and the latest information.</p>		2018
For calendar year 2018 or tax year beginning		, 2018, ending	, 20
A S election effective date	Name	D Employer identification number	
B Business activity code number (see instructions)	TYPE OR PRINT	Number, street, and room or suite no. If a P.O. box, see instructions.	E Date incorporated
		City or town, state or province, country, and ZIP or foreign postal code	F Total assets (see instructions)
C Check if Sch. M-3 attached <input type="checkbox"/>		\$	
G Is the corporation electing to be an S corporation beginning with this tax year? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach Form 2553 if not already filed			
H Check if: (1) <input type="checkbox"/> Final return (2) <input type="checkbox"/> Name change (3) <input type="checkbox"/> Address change (4) <input type="checkbox"/> Amended return (5) <input type="checkbox"/> S election termination or revocation			
I Enter the number of shareholders who were shareholders during any part of the tax year ▶			
Caution: Include only trade or business income and expenses on lines 1a through 21. See the instructions for more information.			
Income	1a Gross receipts or sales	1a	
	b Returns and allowances	1b	
	c Balance. Subtract line 1b from line 1a	1c	
	2 Cost of goods sold (attach Form 1125-A)	2	
	3 Gross profit. Subtract line 2 from line 1c	3	
	4 Net gain (loss) from Form 4797, line 17 (attach Form 4797)	4	
5 Other income (loss) (see instructions—attach statement)	5		
6 Total income (loss). Add lines 3 through 5 ▶	6		
Instructions for limitations	7 Compensation of officers (see instructions—attach Form 1125-E)	7	
	8 Salaries and wages (less employment credits)	8	
	9 Repairs and maintenance	9	
	10 Bad debts	10	
	11 Rents	11	
	12 Taxes and licenses	12	
	13 Interest (see instructions)	13	
	14 Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	14	

Taxation of a Corporation

Form 1120 is used for a C-Corporation to report the income, gains, losses, deductions, and credits and to figure the income tax liability of a corporation

2018 Form 1120

1 / 6



1120 U.S. Corporation Income Tax Return OMB No. 1545-0123
Form Department of the Treasury Internal Revenue Service For calendar year 2018 or tax year beginning _____, 2018, ending _____, 20 **2018**
Go to www.irs.gov/Form1120 for instructions and the latest information.

A Check if:

<input type="checkbox"/> 1a Consolidated return (attach Form 851)	TYPE OR PRINT	Name	B Employer identification number
<input type="checkbox"/> b Life/shortlife consolidated return		Number, street, and room or suite no. If a P.O. box, see instructions.	C Date incorporated
<input type="checkbox"/> 2 Personal holding co. (attach Sch. PH)		City or town, state or province, country, and ZIP or foreign postal code	D Total assets (see instructions)
<input type="checkbox"/> 3 Personal service corp. (see instructions)			\$
<input type="checkbox"/> 4 Schedule M-3 attached	E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change		

Income	1a Gross receipts or sales	1a	
	b Returns and allowances	1b	
	c Balance. Subtract line 1b from line 1a	1c	
	2 Cost of goods sold (attach Form 1125-A)	2	
	3 Gross profit. Subtract line 2 from line 1c	3	
	4 Dividends and inclusions (Schedule C, line 23, column (a))	4	
	5 Interest	5	
	6 Gross rents	6	
	7 Gross royalties	7	
	8 Capital gain net income (attach Schedule D (Form 1120))	8	
	9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	9	
10 Other income (see instructions—attach statement)	10		
11 Total income. Add lines 3 through 10	11		
Limitations on deductions	12 Compensation of officers (see instructions—attach Form 1125-E)	12	
	13 Salaries and wages (less employment credits)	13	
	14 Repairs and maintenance	14	
	15 Bad debts	15	
	16 Rents	16	
	17 Taxes and licenses	17	
	18 Interest (see instructions)	18	
19 Charitable contributions	19		



Who Can Elect to be Taxed as S-Corporations

Corporations that meet the following criteria can elect to be taxed as S-Corporations:

- the corporation must be a domestic corporation
- the corporation cannot be a member of an affiliated group of corporations
- the corporation can have no more than one hundred shareholders.

Who Can Elect to be Taxed as S-Corporations

Corporations that meet the following criteria can elect to be taxed as

S-Corporations:

- shareholders must be individuals, estates, or certain trusts.
Corporations and partnerships cannot be shareholders
- Shareholders must be citizens or residents of the United States.
Nonresident aliens cannot be shareholders
- the corporation cannot have more than one class of stock.
Shareholders do not have to have equal voting rights.

Additional Information

EIN-Employer Identification Number

Employer Identification Numbers (EIN), also known as a Federal Tax Identification Number. An EIN is used to identify a business entity.

The screenshot shows a web browser window with the URL https://www.irs.gov/site-index-search?search=EIN&field_pup_historical_1=1&field_pup_historical=1. The page features a left-hand navigation menu with the following categories and counts:

- Filter by... i
- General Information (275)
- News (36)
- About IRS (18)
- Software Development (13)
- Forms and Instructions (6)
- Tax Administration (Non-Authoritative) (4)
- Legal Guidance (Authoritative) (3)

The main content area displays a search result for "EMPLOYER IDENTIFICATION NUMBER" with the subtitle "Understanding Your EIN". It is recommended by the IRS. Below this, there are two links:

- [Apply for an Employer Identification Number \(EIN\) Online](#): Information about how to apply online for an Employer Identification Number.
- [Do You Need a New EIN?](#): Generally, businesses need a new EIN when their ownership or structure has changed.

At the bottom of the search results, it says "Displaying 1 - 10 of 356". There are two filter buttons: "General Information" and "Small Businesses". Below these is another link: [Employer ID Numbers](#).

Beware of SCAMS!!!
You can apply for an
EIN FREE on
IRS.GOV