

## **Types of Corporations**

### **General Corporation**

A general corporation, also known as a “C” corporation, is the most common corporate structure. A general corporation may have an unlimited number of stockholders. Consequently, it is usually chosen by those companies planning to have more than 30 stockholders or large public stock offerings. Since a corporation is a separate legal entity, a stockholder's personal liability is usually limited to the amount of investment in the corporation and no more.

### **Close Corporation**

A close corporation is most appropriate for the individual starting a company alone or with a small number of people. There are a few significant differences between a general corporation and a close corporation. A close corporation limits stockholders to a maximum of 30. In addition, many close corporation statutes require that the directors of a close corporation must first offer the shares to existing stockholders before selling to new stockholders. Not all states recognize close corporations.

### **Subchapter S Corporation**

A Subchapter S Corporation is a general corporation that has elected a special tax status with the IRS after the corporation has been formed. Subchapter S corporations are most appropriate for small business owners and entrepreneurs who prefer to be taxed as if they were still sole proprietors or partners. When a general corporation makes a profit, it pays a federal corporate income tax on the profit. If the company also declares a dividend, the stockholders must report the dividend as personal income and pay more taxes. S Corporations avoid this "double taxation" (once at the corporate level and again at the personal level) because all income or loss is reported only once on the personal tax returns of the stockholders. For many small businesses, the S Corporation offers the best of both worlds, combining the tax advantages of a sole proprietorship or partnership with the limited liability and enduring life of a corporate structure.

To elect S Corporation status, your corporation must meet specific guidelines.

- All stockholders must be citizens or permanent residents of the United States.
- The maximum number of stockholders for an S Corporation is 75.
- If an S Corporation is held by an "electing small business trust," then all beneficiaries of the trust must be individuals, estates or charitable organizations. Interests in the trust cannot be purchased.
- S Corporations may only issue one class of stock.
- No more than 25 percent of the gross corporate income may be derived from passive income.

Not all domestic general business corporations are eligible for S Corporation Status.

Exclusions:

- a financial institution that is a bank
- an insurance company taxed under Subchapter L
- a Domestic International Sales Corporation (DISC)
- certain affiliated groups of corporations
- For more detailed information about these changes and other aspects regarding S Corporation status, contact your accountant, attorney or local IRS office.

How to File as a Subchapter S Corporation:

- Form a general or close corporation in the state of your choice.
- Obtain the formal consent of the corporation's stockholders and note this consent in your corporation's minutes.
- Complete Form 2553, Election by a Small Business Corporation.

### **Limited Liability Company (LLC)**

The LLC is not a corporation, but it offers many of the same advantages. Many small business owners and entrepreneurs prefer LLC's because they combine the limited liability protection of a corporation with the "pass through" taxation of a sole proprietorship or partnership.

- LLC's have additional advantages over corporations:
- LLC's allow greater flexibility in management and business organization.
- LLC's do not have the ownership restrictions of S Corporations, making them ideal business structures for foreign investors.
- LLC's accomplish these aims without the IRS' restrictions of an S Corporation.
- LLC's are now available in all 50 states and Washington, D.C. If you have other questions regarding LLC's, be sure to speak with a qualified legal and/or financial advisor.