BIZ TIP$

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LLC vs. S-Corp vs. hybrid

The most common forms used by small businesses as legal entities are Sole Proprietorship, LLC (Limited Liability Company), and S-Corporation. There are others, i.e., Partnerships, C-Corporations, and Co-Ops, but these are less commonly used in the small business community.

Let’s Look at the Options

NOT!!! Sole Proprietor – Although it’s the easiest to set up, just use your name – Arron’s Anvils, it provides no liability protection to the owner. Should you be sued, all of your personal assets are at risk of loss.

LLC – By far the most popular and easiest for anyone to set up. It gives you the liability protection of your personal assets, unless you’ve done something illegal.

S-Corporation – Not as easy to set up, but it does provide the liability protection you need.

LLC, filing as an S-Corporation for income tax purposes – All you need to do is request this special hybrid status from the IRS, and you get your liability protection as well.

What Makes Them Different?

Considerations	LLC	S-Corp	LLC, filing as an S-Corp
Governance – The agreements that you and your other owners have decided will govern your day-to-day operations	Easy **Operating Agreement Can** change as often as needed	Difficult **Articles of Incorporation and Bylaws** Every change requires a vote by all stockholders Requires a board of directors, corporate officers, and documented annual meetings.	Same as LLC
Tax Return – Which form is used and how does it come back to your personal tax return	Schedule C Part of your 1040 *If multiple owners*, 1065 and K-1 for each owner to bring into their return	1120 S A bit more complex, but generates a K-1 for each owner to bring into their return	Same as LLC
Owner as Employee – By law, an LLC or Partnership owner can not legally pay themselves a paycheck	No Must take a draw	Yes	Owners can be employees Business deducts most employment taxes as an expense

Special Requirements – The law dictates a few special requirements for certain business entities	Must designate the “Managing Member”	Must issue Stock; Limit of 100 shareholders Must be US Citizens	Same as LLC

So, Which One Should You Choose for Your Business?

In our opinion, an **LLC filing as an S-Corp** is the easiest to set up and govern, and it puts more money in its owners' pockets. The combination of being able to change operational decisions at the snap of a finger and have the company pay the 7.65% FICA and 6% Unemployment taxes makes it a no-brainer.

BIG TIP

You don’t have to make your spouse an owner. It can complicate the sale/transfer of the business, and your spouse can rely on Montana law to get “their share” if something goes amiss.

Call us to discuss how we can be of assistance

If you are a startup, small business, or nonprofit, MyAdvisor LLC is here to help you with bookkeeping, accounting, and tax services at value-priced rates.

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