LEGAL STRUCTURES

SBDC STARTUP SERIES

How should I legally structure my business?

Businesses may be structured a variety of ways, each with its own advantages and disadvantages. It is strongly recommended that you consult with an attorney, accountant, financial advisor and/or your local SBDC Business Advisor to help you determine which structure best suits your needs.

Sole Proprietorship: This type of business is owned by a single individual. A sole proprietor has total control of any responsibility for his or her business, receives all profits and can make important decisions quickly. The sole proprietor is also responsible for all taxes and liabilities of the business.

General Partnership: A partnership is an association of two or more people acting as co-owners of a for-profit business. Individuals may create a partnership by oral or written agreement. Under this arrangement, the partners share personal liability for all claims against the partnership, as well as share all profits and losses. Profits are taxed as personal income for each individual partner.

Limited Liability Partnership: A limited liability partnership operates much like a general partnership, except none of the partners can be held personally liable for claims against the business. Partners are not liable for the errors or negligence of the other partners or their employees unless they themselves are supervising, directing or involved in the action for which a claim has been filed.

Limited Liability Company: This form of business offers both the protections from personal liability of a corporation and the favorable tax treatment of a partnership. It provides for flexibility in the contribution and distribution of assets. Professional limited liability companies have the same requirements as professional corporations.

Corporation: A corporation is a more complex form of business organization. It exists apart from its owners or shareholders and is a legal entity in its own right. As a separate entity, it has its own rights, privileges and liabilities apart from the individuals who form it. A corporation has shareholders who invest money in the business and therefore own it. The shareholders hold an annual meeting at which they elect a board of directors. The board makes policy decisions for the company and selects the corporate officers who manage the company's daily affairs.

For more details about each individual business structure, visit: sosmt.gov/business.

ABOUT THE MONTANA SBDC

SBDC STARTUP SERIES

The Montana Small Business Development Center Network is a partnership among the Montana Department of Commerce, the U.S. Small Business Administration, regional economic development organizations and institutions of higher education.

This network consists of 10 centers throughout the state that offer free, confidential, one-on-one business counseling and low-cost training programs to small businesses and entrepreneurs.

The SBDCs are dedicated to helping small businesses throughout Montana grow, innovate and succeed. Our network combines the resources of federal, state and local organizations with the education system and private sector to meet the specialized and complex needs of the small business community.

Visit sbdc.mt.gov and contact the SBDC nearest you to learn more about counseling services and training programs are available in your area.

Images courtesy of the Montana Department of Commerce.

This document is printed at State expense. Information on the cost of producing this publication may be obtained by contacting the Montana Department of Administration.