

# [How to form your own](https://assignbuster.com/how-to-form-your-own/)

The start of the 21st century marks anexciting time for small business ownersand other entrepreneurs. With thedownsizing and privatizing of many of theirlarger, publicly held corporate counterparts, small businesses have an even more importantrole to play in revitalizing and expanding theU. S.

economy and redefining the Americanworkplace. Coupled with the fact that smart, hardworking small business owners often doextremely well financially, the trend towardsmall business formation continues to swell, as more and more escapees from the corporatetreadmill step out on their own to form theirown business. Fortunately, it??™s not difficult to start a businessin California, but you do need to make keydecisions??” one of which is to decide whichlegal structure your business will assume. One of the most popular choices is the small, privately held corporation.

In large part, this isbecause the corporate form has a unique set ofcharacteristics that can??™t be found all together inany of the other business forms. One of the corporation??™s most appealingcharacteristics is the limited liability protectionit provides to all business owners. Theshareholders of a corporation are not personallyliable for the debts or liabilities of thebusiness??” their personal assets are not at risk tosatisfy business debts, losses, or legal liabilities, including lawsuits. Limited liability protection is a tried-and-truefeature of corporate law, well settled by years ofcourt decisions. And the rare instances whena corporation may be denied limited liabilityare also clearly established. It usually happenswhen a small corporation owner comminglescorporate and personal funds or otherwiseblatantly disregards the fundamentals of doingbusiness as a corporation. A corporation is also a separate tax entityfrom its owners. In practice, this means you canoften use your corporation to shelter businessincome instead of having to pay personalincome taxes on all business profits each year(as you would with a sole proprietorship orpartnership, where you and your business aretreated as the same person for tax purposes).

Ofcourse, you have to pay corporate income taxeson money left in the corporation, but becauseinitial corporate tax rates are lower than themarginal (top) tax rates most business ownerspay, you often get an overall tax savings. Organizing your business as a corporation isalso a handy way to provide yourself and otheremployees with unique corporate perks suchas stock options and stock bonuses. There isnothing more motivating to attract and keeptalented corporate employees than sharing a