

# How to form your own



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The start of the 21st century marks an exciting time for small business owners and other entrepreneurs. With the downsizing and privatizing of many of their larger, publicly held corporate counterparts, small businesses have an even more important role to play in revitalizing and expanding the U. S.

economy and redefining the American workplace. Coupled with the fact that smart, hardworking small business owners often do extremely well financially, the trend towards small business formation continues to swell, as more and more escapees from the corporate treadmill step out on their own to form their own business. Fortunately, it's not difficult to start a business in California, but you do need to make key decisions, one of which is to decide which legal structure your business will assume. One of the most popular choices is the small, privately held corporation.

In large part, this is because the corporate form has a unique set of characteristics that can't be found all together in any of the other business forms. One of the corporation's most appealing characteristics is the limited liability protection it provides to all business owners.

The shareholders of a corporation are not personally liable for the debts or liabilities of the business, their personal assets are not at risk to satisfy business debts, losses, or legal liabilities, including lawsuits. Limited liability protection is a tried-and-true feature of corporate law, well settled by years of court decisions. And the rare instances when a corporation may be denied limited liability are also clearly established. It usually happens when a small corporation owner commingles corporate and personal funds or otherwise blatantly disregards the fundamentals of doing business as a corporation. A corporation is also a separate tax entity from its owners. In

practice, this means you can often use your corporation to shelter business income instead of having to pay personal income taxes on all business profits each year (as you would with a sole proprietorship or partnership, where you and your business are treated as the same person for tax purposes).

Of course, you have to pay corporate income taxes on money left in the corporation, but because initial corporate tax rates are lower than the marginal (top) tax rates most business owners pay, you often get an overall tax savings. Organizing your business as a corporation is also a handy way to provide yourself and other employees with unique corporate perks such as stock options and stock bonuses. There is nothing more motivating to attract and keep talented corporate employees than sharing a