Business structures

Finance

Business Structures Business Structures General Corporation General Corporation is a separate legal entity from its unlimited shareholders. The stockholders have protection against the creditors of the business entity by the law. General corporations have many advantages relative to other types of business structures. The most important advantage revolves around the liability of the shareholders. Based on the laws that govern the establishment of general corporations, the shareholders exhibit protection from the creditors of the business (Gardner, Thurman, and Entrepreneur Media, 2006). In case the corporation incurs debts, only the shareholder's investments in the business are usable towards settlement of such debts. General corporations exhibit unlimited life. They continue to exist upon the death of the shareholders. It is easier to transfer the ownership of a general corporation. Such transfer take place through sale of stock and does not affect the management of the business. As a business structure, general corporations have limitations. Relative to sole proprietorship, general corporations are expensive to start due to the large capital base required. The formation of general corporations entails more legal formality. They are also subject to many federal and state rules and regulations during their operations.

S Corporations

Formation of S Corporation businesses depend on the decision of the owners to avoid income tax while at the same time keep enjoying the advantages associated with limited liability of corporations. In terms of advantages, the S corporations exhibit the same benefits as the general corporations. Distinction between the advantages of the two businesses structures sets in when it comes to tax issue (Jamison, 2009). S corporations enjoy exemption from double taxation that is mandatory for the general corporations. S Corporations escape from double taxation because reporting of incomes occurs once during the filing of personal tax returns of the shareholders. The liability of shareholders in S Corporation is limited. The major disadvantage of this type of business structure is the dominance in decision-making by the majority shareholder. At times, . the decision made may not be to the best interest of other shareholders. The shareholders in the S corporation must come from the United States. Aliens do not have the right to run the business type. During formation of this business structure, certificate of incorporation is a requirement.

Limited Liability Companies

A limited liability company combines limited liability features of corporations and limited taxation of sole proprietorship. Limited liability companies have varied advantages compared to other types of business structures. Due to the limited liability, the assets of the shareholders are not applicable in payment of the company debts beyond their investments. Unlike S Corporations, limited liability companies do not have restrictions in the ownership. Foreigners can run them without interference from the government. The management in limited liability companies is very flexible making them efficient in management. In terms of limitations, limited liability companies have limited life. The maximum number of years for their existence is thirty. In addition to the limited life, formation of limited liability companies may require at least two people for it to start operations. LLCs lack stocks and therefore do not enjoy the benefits that accompany sales and stock.

References

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