



## HOW TO START A BUSINESS

### STEP 3

### DETERMINE YOUR LEGAL BUSINESS STRUCTURE

1. **Name and legal structure:** in starting a new business, two of the first decisions are choosing a business name and deciding what legal structure to operate under. The legal structure of a business can be defined as the structure which officially determines how taxes will be filed and reported, plus how lawsuits may be incurred.
  - When a business starts and is owned and operated by a single person without any other formalities, its legal structure is a **sole proprietorship**. If a business starts and is jointly owned and operated by two or more persons without any other formalities, its legal structure is a **general partnership**.
  - Sole proprietorships and general partnerships are the most common types of legal structures used by small business owners. Under these two structures, the business owners are more vulnerable to personal liability from lawsuits and higher taxes due to the inability to take advantage to certain favorable situations.
  - Business owner(s) may decide to create and operate under one of the **formal types of legal structures** to reduce the potential for personal liability and higher taxes. The formal structures are more complex and require more detailed filing actions. An owner may decide to file and use a formal structure for the business before starting, or the owner(s) may operate as sole proprietor or a general partnership, while in the process of changing to one of the formal structures. Decisions of the two latter types to change, usually, occur after more advise and needed information have been obtained, which may include conferring with other owners and specific business professionals (such as a tax attorney, certified public accountant or other consultants).
  
2. **Registering or filing or formal legal structure:** as indicated, in an attempt to reduce the vulnerability of personal liability from lawsuits or higher taxes, a business owner may decide to operate under one of the following formal legal structures:
  - a. **Common Corporation** (also termed a C-Corp)
  - b. **Sub-Chapter S Corporation** (or S-Corp)
  - c. **Limited Liability Company** (LLC)
  - d. **Limited Partnership** or other types

[Click here to see the description of each possible business structure.](#)

These formal structures have to be filed with a Secretary of State (SOS), as outlines under the agency's specific procedures and forms. After submission of the necessary documents and payments of the related fees, the SOS will issue a certificate (or acknowledgement) that the filing for the particular structure has been accepted.

In starting or changing to one of the formal legal structures, we recommend the owner seek the assistance and advice of specific professionals, such as attorneys or CPA's that work with small businesses in this area.

