

Advantages Of Incorporating A Small Business

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Small businesses can benefit from operating as corporations. If a small business is not a corporation it is most likely operating as a sole proprietor (one person) or partnership (two or more owners).

But neither a sole proprietor nor general partners in a partnership gain the protection and benefit that comes with incorporation.

The benefits of incorporation have been often stated and include, among others, a limit of liability which protects the personal assets of individuals from the debts and liabilities of the corporation. Of course, this assumes that all necessary corporate formalities are followed and personal guarantees have not been given for corporate obligations.

Protection arises because a corporation is a separate legal entity, apart from the individual(s) who owns and/or manages the company. As such the corporation can sue, and be sued. The corporate shield will normally protect individual assets.

A corporation also provides a vehicle for attracting investors or rewarding employees with stock or ownership interests of their own.

But forming and maintaining a corporation takes time, along with various associated costs. Depending on the type of corporation formed, there may be significant taxation implications, including double taxation.

Still, the benefits of incorporation often outweigh the disadvantages.

When forming a corporation you must decide what type of corporation your business will become. The options include a limited liability company, a regular "C" corporation, or an "S" corporation. There are other corporate forms as well (e.g. public benefit corporations in California and many states) not to mention limited partnerships which are not corporations at all, but share some of the same attributes.

Incorporation may also be a part of a larger branding strategy, which includes a name change or image change to attract new customers or enter new markets.

There are service providers (non-lawyers) that help small business owners form corporations. But to properly plan and consider all possible alternatives, and do so with legal input, it's necessary to hire an attorney.

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