About the Presenter –

➤ Margaret Hung opened her LLC after working as a clinical data programmer at GSK.
➤ Has been with PharmaSUG since its inception in the ‘70’s.
➤ Helped PharmaSUG set up as a C Corp in 1976.
➤ On PharmaSUG’s Executive Committee.
➤ An active IRS Enrolled Agent (EA).
Why Incorporate is Smart Business ©

➢ What is Incorporating a Biz?

➢ Benefits of Incorporating a Biz

➢ Different Business Entity Types – Pros and Cons

➢ Which Entity Type is For Your Biz?
Incorporation – What & Why?

Set up your Biz as a separate legal entity on Secretary of State (SOS). Benefits -

➢ Asset Protection - *Incorporating your business separates your personal finances from business finances. If your business fails, your creditors can only take your business assets to pay your debts.*

➢ Your Biz has an Identity - *You have an EIN; Biz listed on SOS.*

➢ Look Professional - *Adding “Inc.” or “LLC” to your Biz name makes your operations look more established. The extra title will help you stand out from unincorporated businesses.*
Establish and preserve your brand - No other business will be able to use this name, better able to protect your biz’s brand.

Build business credit - Incorporating allows you to build up a credit score for your biz that’s separate from what you own personally.

Open up new customer relationships - Some companies will only work with incorporated biz. Reach more customers, bring in new business.

Access funding - Banks and other lenders are more likely to offer a loan to an incorporated biz.
Different Entity Types

- Sole Proprietorship
- C Corporation
- LLC (Limited Liability Company)
- Partnership
- S Corporation
Unincorporated Biz with One owner.
Files the Biz taxes with owner’s personal taxes.
Pros – Simplicity - nothing to set up; saves money; no separate tax filing.
Cons – No asset protection; you can be sued.

Filing Schedule C
C Corporation

The ‘C’ stands for the subchapter of the IRS code

Pros -

➢ Covered with limited liability, making the owner not personally liable for the debts that the corporation may incur.
➢ Easier to go public.
➢ Have an unlimited amount of stockholders.
➢ Easier to raise investment capital.
➢ Write off benefits like health insurance and dental plans for executives as business expenses.
➢ Choice for immigrant-owned businesses.
C Corporation, cont’d

- Shareholders do not have to wait for the C Corp’s tax filing
- C Corp tax filing due date is April 15 (NOT March 15)
- Can have unlimited # of shareholders

Cons –
- Double taxation – Paying 21% flat taxes. Shareholders pay taxes on dividends distributed.
- Cannot pass losses to shareholders, but they can apply the tax benefit of a loss to future profits in order to reduce those tax burdens (NOL).

Filing IRS form 1120
LLC – Limited Liability Company

LLC can protect small-business owners from personal liability in business obligations. Owners of LLCs are members. LLCs can have one owner (single member LLC) or more than one owner (multi-member LLC). Owner-employees of LLCs are self-employed.

Pros –

➢ More flexible than a corporation in organization and profit distribution.
➢ No Board of Directors.
➢ An LLC can also choose taxation as a corporation, and owners can choose to file 2553 to be taxed as an S Corp.
➢ Owner can be hands-off or participate in organization management.
➢ Owners can also be another corporate entity.
Cons –

- No stock or shareholders.
- Owners pay self-employment tax (15.3) on all net profits.
- Owners pay taxes on net profit *regardless* whether it has been distributed or not.
- Cannot go public.

_Filing Federal Tax Form 1065_
A Partnership has two or more people doing business together.

Each partner has an equal right to govern the company.

An LLC must file certificates of organization with either the Secretary of State or the Department of Corporations to be recognized.

An LLC has to file an annual report and pay the fee.

LLCs protect members from personal liability. When an LLC is sued or incurs debt, the members have their personal assets protected.

On the other hand, partners can be held personally liable for any debts or losses the partnership acquires.

Both LLC and Partnership file Federal Tax Form 1065
The “S" in S corp. stands for “subchapter," because an S corp. is a subchapter corporation.

Pros -

- Owner claims a share of company profits on his/her individual tax return.
- Profits are not double-taxed (once under the corporation and again under the owner).
- It is a pass-through entity; it does not pay taxes at the entity level.
- S Corp pays health insurance for owners who then take a deduction on their personal taxes.
- Owners receive additional profits as distributions, which aren't subject to Medicare and Social Security taxes.
Cons:

- Cannot have foreign owners – only US citizens and resident aliens
- Must have a Board of Directors and at least 1 annual meeting
- Can only have up to 100 members
- More involved when forming an S Corp – Form C Corp and file form 2553
- Has NO entities as owners except Trusts and Estates
- Meet time filing - 
  
  **electing S Corp status two months and fifteen days after officially organizing your business (for the status to affect the current tax year)**
- Owner-employees must pay themselves a reasonable salary for their work
- Can only issue Common Stocks

*Filing IRS tax form 1120S*
Which Entity Type is For You?

- Biz will last for a short time → **Sole Proprietor**
- Looking for maximum flexibility → **LLC**
- Planning to sell your Biz in the near future → **C Corp**
- A small Biz; owner is the only employee → **S Corp**
- May have foreign owners → **C Corp**
- Easier to sell the Biz and go Public → **C Corp**
Miscellaneous

➢ Other than Biz insurance, consider buying Umbrella Insurance
➢ Buy domain names in different extensions
➢ Do Not use your home address as the official address
➢ Hire a Pro to create your Biz’s website
➢ Make Social Media Promo a Must
➢ Professional connection through local and national conferences
➢ Working from Home may not be ideal – explore Co-Working Space
➢ Hire a pro to prepare your biz taxes
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