



Why Incorporate is Smart Business ©

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.*

Incorporation – What & Why? – cont'd

- 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

Sole Proprietorship (SP)

- 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.

LLC, cont'd

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

LLC vs Partnership

- 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

S Corporation

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.

S Corporation, cont'd

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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