

QUESTIONNAIRE: Is My Business Better Suited to Be a Corporation or an LLC?

For many businesses, the best choice of form is either a corporation or a limited liability company (LLC). Both provide liability protection for business owners and allow multiple persons to own a share of the company. Depending on your goals, your business may be most suited to starting as an LLC or as a corporation, or starting as an LLC with the intention of changing to a corporation later. This diagnostic questionnaire will help you identify which form best suits your initial needs.

Yes/no

_____ Business income will be paid out to the business owners as it comes in, not reinvested in the company for growth.

_____ It would be advantageous for business owners, not the company, to pay tax on any business income and take deductions on any business losses as part of their personal taxes.

_____ The business owners would like to avoid "double-taxation"—the corporation paying tax on its income, and owners also paying tax on income paid to them through dividends.

_____ The company does not expect to have many investors or to raise money from the public for at least three to five years.

_____ You don't expect that the company will provide owners with large salaries or extensive fringe benefits, which the company would benefit from being able to deduct from its taxes.

_____ The company is not planning to offer retirement benefits which would only be available under a corporate retirement plan.

_____ The business does not have plans to offer stock options or stock bonus incentives to recruit or retain key employees for at least several years.

_____ You want to avoid formal corporate management and structural requirements.

_____ If you are the only business owner, your accountant has analyzed your potential tax liability and determined that taxation as an LLC would benefit you more than taxation as an S corporation.

_____ If you are the only business owner, your attorney has advised you that your state allows LLCs with only one member.

The more questions you answered with a "yes," the more likely an LLC form would benefit your business, at least at the time of formation and several years thereafter. Knowing these answers will help you decide with your attorney what the best course will be for your new company.