

A business can be conducted in a number of forms, such as a partnership, a regular corporation, or an S corporation. Doing business as a partnership has many tax advantages. Income is taxed only once, and there is great flexibility in how income and deductions are passed through to the partners. But the partners' assets are put at risk, since each general partner is personally liable for the partnership debts and obligations.

Corporations don't have the liability problem, since shareholders aren't responsible for debts of the corporation. However, a corporation's income may be taxed twice, once when the corporation earns it and once when it is distributed to the shareholders in the form of dividends.

Electing to be an S corporation avoids double taxation. But S corporations have many restrictions as to the number and type of shareholders, classes of stock, ownership of subsidiaries, etc.

The limited liability company offers a way out of this dilemma. An LLC is owned by investors known as members. It is managed either by the members themselves or by designated managers. Like shareholders of a corporation, the members' liability is limited to the amount of their investment. And, IRS generally treats LLCs that are owned by more than one person as partnerships for tax purposes. LLCs that are owned by one person are disregarded for tax purposes, with the result that the income of the LLC is taxed to the owner directly, without any entity level tax.

If you are already doing business as one of the other entities, it may make sense to consider converting to an LLC.