



## **Selecting a Business Entity**

by Chanon Collins

Starting a new business requires a great deal of research and paperwork before the organization can open for business. One important item in the start-up phases of a business is the selection of the business entity. Traditionally, most businesses have elected to organize as a C-corporation, S-corporation, Partnership, or Sole Proprietorship. There are new additions to add to this list of possibilities for choosing a business entity—an election of a Limited Liability Corporation (LLC), a Limited Liability Partnership (LLP), or a Family Limited Partnership (FLP) with the FLP focusing on specific avenues of estate planning and succession. The LLC and LLP are the only entities that provide the advantages of both partnerships and corporations. The selection of a LLC or LLP is currently the preferred choice for professional advisors.

There are several advantages to forming a business as a LLC or LLP. These entities can provide the flow-through of gains and losses to the individual level with the operational flexibility of a partnership. All members of the LLC or LLP have limited liability as if organized as a corporation under state law. The organization of a LLC or LLP offers flexible management options as one or more members or non-members may manage the organization.

The first LLC statute was introduced in 1977 and several statutes were recently tested within the court systems and persevered. Each state holds different statues in reference to LLC and LLP entities. A review of the statues should be included in any research geared toward selecting a business entity.

Any new business owner would be remiss if LLC and LLP entities were not included in the entity research. All aspects of benefits and costs of the election of various entities should be considered. The tax benefits and flexibility offered by these entities should not be ignored.

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