

This Webinar Presented by



"Funded in part through a Cooperative Agreement with the U.S. Small Business Administration. All opinions, conclusions, and/or recommendations expressed herein are those of the author(s) and do not necessarily reflect the views of the SBA."

Copying and Distribution
Requires written permission of speaker

Before We Start

Score.org



Score Hawaii



- Score is a National non-profit organization dedicated to providing educational and free mentoring services to entrepreneurs
- Score Hawaii is based in Honolulu and is a member chapter of the Score National organization
- If you are involved in starting or are already operating a business and would like a mentoring service, please go to [Score.org](https://www.score.org) webpage to register for free one-on-one mentoring service
- For continuing education on various business issues, please attend Score Hawaii webinars. Scheduled Webinars and prior recordings can be found by visiting [Score Hawaii](https://www.score.org) and going to “Take a Workshop” or “Recorded Webinar” tabs.
- For those interested in volunteering, please visit [Score.org](https://www.score.org) webpage and register to be a Score volunteer

Disclaimer

- The information presented is for informational and educational purposes only.
- The opinions expressed during this presentation are the opinions of the presenter and no other.



About the Presenter

- Practicing over 11 years
- Worked in politics, business, and law
- Founding partner of Hew & Bordenave
- Practice Areas: Entity Formation, M&A, Administrative Law, Intellectual Property
- I help small- and medium-sized business owners form, buy/sell their businesses, and draft/review contracts for business deals and file “paper” with government agencies for businesses.
- Translated: I shuffle paper and stare at the screen!



About Business Entities: Understanding and Selecting a Legal Business Structure

Ryan K. Hew, esq.

Partner, Hew & Bordenave

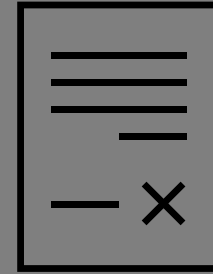
Agenda – what are we learning about today?

1. What is today's webinar all about?
2. Basic Legal Terminology – how do we compare business entities?
 1. Formalities
 2. Liabilities
 3. Taxes
3. Types of Business Entities
 1. Sole Proprietorship
 2. Partnership
 3. LLC
 4. Corporation
4. A Word on S-Corporations
5. Other Things to Consider/FAQs
6. Q&A

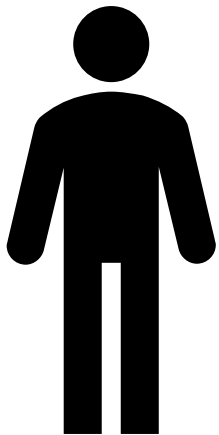
WHEN
COMPARING AND
CONTRASTING
BUSINESS
ENTITIES, WE
CONSIDER THE
FOLLOWING:

BASIC LEGAL TERMS (LEGALESE)

- Formalities = paperwork
 - How much paperwork is there/what needs to be filed?
 - Duration of the entity
- Liabilities – for business owners, considering tort and contractual liabilities, what does it mean for their personal assets?
 - Limited Liability (aka Asset Protection) – separate legal “person”
- Taxes – we are *only* discussing income taxes with respect to the business entity versus that of the owner.

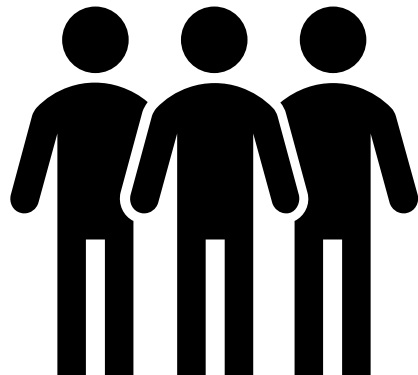


Sole Proprietorship



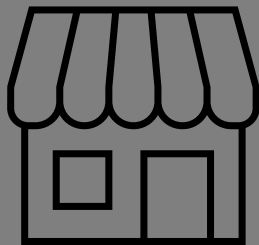
- Formalities: easy, there is no paperwork to file to form
 - Bad thing: when the sole proprietor dies, that's it
- Liabilities: NO limited liability, the sole proprietor is liable for the debts, obligations, liabilities of the business
- Taxes: sole proprietor just reports their profit or loss from the business in a Schedule C to the IRS

Partnership



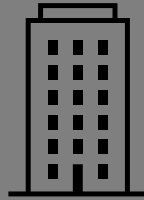
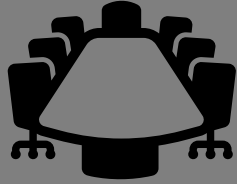
- Formalities: none, but for certain types of partnerships (LPs, LLPs), there can be
 - Also strongly urged to have a Partnership Agreement
 - No perpetual existence
- Liabilities: partners are jointly and severally liable for the torts of the partnership
- Taxes: the partnership itself doesn't pay income tax, but it passes any profit or loss to the partners = pass-thru;
 - the partners directly report on their own individual returns
 - Schedule K-1 (Partner's Share of Income, Deductions, Credits, etc.)

Limited Liability Company (LLC)



- Formalities: minimal, Articles of Organization need to be filed
 - For 2 or more Members or a Manager-Managed LLC strongly urged to have an Operating Agreement
 - Perpetual existence after an individual passes on
- Liabilities: it is the name!
- Taxes: for income tax purposes:
 - if a single-member LLC = sole proprietorship (aka disregarded entity)
 - If a multi-member LLC = partnership (aka pass-thru)

Corporation



- Formalities: a lot, very document heavy
 - Articles of Incorporation
 - By-laws
 - Shares/Shareholder agreements
 - Minutes
 - BUT, also has perpetual existence and investor-types prefer
- Liabilities: also has limited liability just like LLCs.
- Taxes: **DOUBLE TAXATION!**
 - The corporation files a separate income tax return from the shareholders.

About S-Corporations

- Not, really a separate choice, but it is an election made on how the IRS should treat the business owner with respect to the business.
- LLCs and Corporations can both make the election.
- The entity is pass-thru for the business owner's income tax returns
- The main advantage was that characterizing distributions to the owner as salary or dividends ("income-splitting")
 - Changes to the tax rate
 - IRS scrutinizes, as the owner must pay a *reasonable* salary
- Other disadvantages is the restrictions on who can be a shareholder, tend to be less flexible than a LLC and have more paperwork due to the IRS's restrictions

Other Things to Consider/FAQs

Personal Guaranties

Insurance

Licensing and Permitting

Succession Planning: Death, Disability, Divorce, and Detention

Registering in another state

Converting from one to another



Mahalo for your attendance!

Got Questions?