**Sole Proprietorship**
A sole proprietorship is a business that is owned and operated by one person. The owner is entitled to all profits of the business, but is also personally liable for all obligations. A sole proprietorship is considered the simplest form of business entity because few formalities are required.

**General Partnership**
A general partnership is formed when two or more people co-own a business for a profit. A written partnership agreement is not required, but is a good idea. The partnership agreement governs the amount of control each partner will have and also how the partners will share profits or losses. Typically each partner is jointly and severally liable for all obligations of the partnership. Each partner is responsible for the income taxes on his share of partnership profits.

**Limited Partnership**
A limited partnership is a partnership formed by two or more people with at least one general partner and at least one limited partner. The general partner controls the management of the business and is usually liable for all obligations of the partnership. The limited partner is usually only an investor with limited liability. For tax purposes, limited partnerships act like general partnerships, where each partner pays personal income taxes on his share of the partnership profits. A limited partnership must be registered with the state, but has no additional recordkeeping requirements.

**Corporation**
A corporation is a legal entity separate from its owners, the shareholders. A corporation typically consists of directors, officers, and at least one shareholder, each with different levels of responsibility, legal duty, and control. Corporations are formed by filing articles of incorporation with the state and have strict recordkeeping requirements. A corporation must comply with federal laws and the laws of each state in which it conducts business. The manner in which business profits are taxed depends entirely on the structure of the corporation.

**Limited Liability Company**
A Limited Liability Company (LLC) is a separate legal entity with one or more owners, called members. The liability of the owners is usually limited to their investment. LLCs have few record-keeping requirements, but should have an operating agreement and must file articles of organization with the state. LLCs offer tremendous organizational flexibility and can be taxed like corporations or like partnerships.

### Management/Profits
- **Sole Proprietorship**: Sole proprietor has total control of business operations and receives all profits.
- **General Partnership**: Control and profits are shared between partners according to the partnership agreement.
- **Limited Partnership**: General and limited partners share in the control and profits of the partnership according to the partnership agreement.
- **Corporation**: Shareholders: ownership rights, including election of directors. Directors: govern general affairs and appointment of officers. Officers: manage day-to-day operations of the business.
- **Limited Liability Company**: Member profits and management procedures are directed by the operating agreement.

### Liability
- **Sole Proprietorship**: No separation of liability—all of the proprietor’s personal and business assets are at risk.
- **General Partnership**: Partners are liable for all obligations of the partnership and liabilities of other partners.
- **Limited Partnership**: Limited partners: no liability for obligations of limited partnership. General partners: same liability as partners in a general partnership.
- **Corporation**: In general, neither directors, officers, nor shareholders are personally liable for any of the obligations of the Corporation.
- **Limited Liability Company**: Usually limited to the member’s investment in the company.

### Taxes
- **Sole Proprietorship**: All profits are taxed as income of sole proprietor.
- **General Partnership**: Acts as pass-through entity. Each partner pays tax on his share of profits. May also require self-employment taxes.
- **Limited Partnership**: Acts as pass-through entity. Both general and limited partners pay tax on their share of profits.
- **Corporation**: S-Corp (acts as pass-through entity): All profits are taxed as income of each shareholder. C-Corp: Business income is taxed at corporate level; dividends are taxed as shareholders’ income.
- **Limited Liability Company**: Can be taxed like corporation or partnership.

### Administration
- **Sole Proprietorship**: Must obtain business license and register trade name. No administrative requirements.
- **General Partnership**: No formal administrative requirements other than obtaining local licenses and permits.
- **Limited Partnership**: Articles of association must be filed, but generally no record keeping or tax filing requirements.
- **Corporation**: Requires bylaws and filing of articles of incorporation; typically has comprehensive record keeping and tax filing requirements.
- **Limited Liability Company**: Only articles of organization must be filed, but should also have an operating agreement.
BUSINESS ENTITY CHECKLIST:

- Choose the proper business entity for your situation.
- Prepare formation documents and agreements.
- Register with the state.
- Apply for a Federal Trademark.
- Obtain a Federal Employment Identification Number.
- Determine your liability for unemployment tax.
- Register with the Department of Taxation.
- Satisfy local licensing requirements.
- Contact the appropriate state agencies with oversight of your industry.

INTELLECTUAL PROPERTY AND TRANSACTIONAL LAW CLINIC

- Evaluating business organizational needs
- Drafting and reviewing business contracts
- Preparing filings and forms for local, state and federal agencies
- Drafting Partnership and Organizational Agreements
- Helping you maximize the value of your intellectual property

Choosing the Proper Business Entity

INTELLECTUAL PROPERTY AND TRANSACTIONAL LAW CLINIC
University of Richmond School of Law
28 Westhampton Way
University of Richmond, Virginia 23137
Web: teachinglawfirm.org
E-mail: ipclinic@richmond.edu