

Which Entity Should You Use?

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Originally Published: July 09, 2006

This is one of the most common questions that new business owners ask me and when they do, I usually give this standard reply....

The correct answer usually depends on a large number of details including the type of product or service the business will be selling, the current and potential size of the business, the business's source and type of beginning and future capital (cash), the number of employees and whether or not they are related, if the owners are married whether or not their spouses are working and have company benefits, if the business wishes to distribute the profits of the company in equal proportion to their investment in the business or not, etc.

Then I tell them they will usually be happiest if they follow these steps:

Step One: Put your Business Plan in writing

A business plan doesn't have to be anything fancy or long and you can do it yourself. In general a business plan includes:

- A description of your business
- the marketing strategy you intend to employ in order to make your business a success
- who the owners are, the owner's role in the company, how they intend on sharing in the debt, profit and/or losses, what happens when one owner decides to leave or if the business wishes to take on a new owner
- how you intend to get the cash to start your venture and how you intend to get future cash, if needed.

Step Two: Have a Meeting with your lawyer, CPA and insurance agent TOGETHER.

Provide each of them with a copy of your business plan in advance of the meeting along with a list of your questions or concerns. At the meeting ask them, based on the information you have provided in the plan, which entity they believe you should create.

Many people fail to include all three of these professionals or don't have a meeting with all three together. That may be a huge mistake.

The two most common concerns when someone creates a business is **liability protection and taxes**. Many people know you have liability protection with a corporation, but there are exceptions for certain professions, type of liabilities and whether or not you personally guaranteed any loans of the business. This is why both your lawyer and insurance agent should be involved. The hot new entity of choice a LLC (Limited Liability Company), but this entity is still considered new and as I explained in my article, *New Texas Franchise Tax*, LLCs are subject to Texas Franchise and Margin tax, two good reasons to consult your lawyer and CPA before choosing this structure.

Step Three: Listen to their advice

Make sure you understand what each adviser is telling you and why they are giving you the advice they are. Take notes. Ask questions. Then go back and review this meeting and their conclusions with everyone involved in your business.

Step Four: Make Your Own Decision

This is your businesses and no one else's so every decision that you make, should be yours. Yes, it's true that you can change your business structure later, but there are exceptions and rules involved that could mean a lot of additional professional fees and taxes.

Gina L. Gwozdz is a CPA who has chosen to specialize in taxes. Visit her website at <http://GLGcpa.com> to view more Tax Tip Articles.