ONE PAGE SUMMARY

Entrepreneurship & Startup › Startup Operations & Execution › Legal & Compliance

Entity selection

Choosing the Right Business Entity is Crucial for Success.

DEFINITION

Entity selection refers to the process of choosing a legal structure for a business. This decision impacts liability, taxes, and operational flexibility.

KEY CONCEPTS

Sole Proprietorship

A business owned by one person, offering simplicity but personal liability.

Partnership

A business structure where two or more individuals share ownership and responsibilities.

Limited Liability Company (LLC)

A hybrid entity that combines the benefits of a corporation and a partnership, protecting personal assets.

Corporation

A legal entity separate from its owners, providing limited liability but requiring more regulations.

Nonprofit Organization

An entity focused on furthering a social cause, exempt from certain taxes but restricted in profit distribution.

EXAMPLES

→ A freelance graphic designer operates as a sole proprietor.

→ Two friends start a bakery as a partnership.

→ A tech startup forms an LLC to protect its founders' assets.

MEMORY TIPS

★ Remember 'S' for Sole Proprietorship: Simple and Single.

★ Think 'LLC' as 'Limited Liability Comfort' for personal asset protection.

★ Use 'C' in Corporation for 'Complexity' due to regulations.

COMMON MISTAKES

✗ Choosing a structure without considering liability implications.

✗ Overlooking tax benefits associated with different entities.

✗ Failing to register the chosen entity properly.

QUICK RECAP

Entity selection is vital for defining a business's legal structure and implications. Consider liability, taxes, and operational needs when making your choice.