

Wise decisions

How to choose the best tax structure for your business **Interviewed by Meredith McKenzie**

Many factors come into play when choosing the right tax structure for your company, and not sifting through every factor can lead to the wrong decision. Some important items to consider include the size and nature of your business, your vision for the future and the level of control you want to have within the organization.

With the economy slowly beginning to turn around, now might be a good time to assess your current tax structure to determine if it's the best one for you. You want to make sure your company is getting the most out of the tax structure, and if it's not, it might be time to think about restructuring.

"You need to set up a meeting with your team — your accountant, attorney and business partners — and determine if you are doing the best things for the company, and if you could be doing things better," says Dennis R. Mowrey, director, tax and business advisory services at GBQ Partners LLC. "It's important to choose the best tax structure to be able to take advantage of vital tax benefits and have the right legal flexibility, and to maximize the value of the company now and in the future."

Smart Business spoke with Mowrey about factors to consider when choosing a tax structure.

What are some key things you need to be aware of when choosing a tax structure?

- The level of control you want to have
- Legal liability and protection of personal assets
- Tax implications
- Expected profit or loss
- Reinvestment opportunities

Who should be involved in the decision making process?

The best people to have involved are your accountant, attorney and other business advisors you may have (such as bankers). All should be consulted as soon as you start to think about setting up a business. All should also be consulted as you make decisions regarding the company moving forward.

Your team, especially your accountant, can also help you decide which tax structure is right for your company. It's good to be as upfront as possible with your team so the best decision is made and all avenues are explored. Too many times people do things and think about the consequences afterward, and then wonder why things did not turn out as



Dennis R. Mowrey

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they expected (i.e., getting a tax assessment for taxes they were not expecting to pay).

What are the different types of tax structures available to businesses?

A sole proprietorship is the easiest and least expensive way to set up a business. You just start up a business and it's there. You have complete charge of your business — there's no one else to tell you what to do or how to run the company — you're in complete control. All profits come to you, and if you need to dissolve the business, it's fairly easy to do.

A partnership is also fairly easy to establish. There are three types: general partnerships, limited liability partnerships and limited partnerships. The most important thing in a partnership is to draft a quality agreement between the partners. Make sure all partners are on the same page and have everything spelled out in writing. Many times what the company and the partners who own the company start out to do changes over time. Partnerships help bring new energy to the company, and allow more than one person to reach the best decision for the company.

There are several different types of corporations — C corporations, S corporations and limited liability corporations. These have the most protection against legal liability. Any debt of judgment against the company

goes against the business and not against your personal finances. Most people can only be held liable for their investment of stock in the company.

What are the risks and benefits of these different structures?

Sole proprietorships have unlimited liability and are legally responsible for all debts against the business, which puts your business and personal assets at risk. It may also be harder to raise funds or to hire high-caliber employees who may want to own their own business in the future.

Partnership profits are shared among all partners and therefore decisions need to be made by all partners (which can sometimes lead to disagreements). Partners are liable for the business actions of their other partners. Partnerships may also have a limited life, and can be inadvertently terminated by a death or withdrawal of a partner.

For corporations the process of incorporation requires more time and money than the other forms of organization. A shareholder of a corporation also deals with double taxation, where the corporation and dividends to shareholders are both taxed. Corporations tend to require more paperwork since they are monitored by federal, state and local tax agencies. Corporations raise funds easier through the sale of stock, and are allowed to deduct some benefits paid to officers and other owners.

Can you change your tax structure down the road, and how easy is it to do this?

Companies should continue to look at and monitor their tax structures as the business grows and develops. As time goes by and tax laws change, your accountant and attorney can help you make decisions as to what is needed to modify your tax structure.

You can change your tax structure over time as you grow or reduce your size, but it may or may not be easy, depending on your current structure. It also depends on the size of your company. If you have a two-person corporation that wants to become an S corporation, it would be very easy to make that change. But it's harder with a large corporation with thousands of shareholders to get everyone on the same page and to sign off on a change to the structure. <<

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