Business Type #3: Corporation

A business corporation is the most complex form of business organization. It is an association of individuals created by law with powers and liabilities independent of its stock holders whose shares of stock represent ownership of the firm. The corporation is a separate and distinct entity from the people who own, control, and manage it. As such, the corporation owns all property, owes the corporate debt, and is the debtor that gets sued or the creditor who sues another.

Stockholders and company officials have limited personal liability. They are almost always protected from personal loss, other than their own investment in the company's stock. It is registered as a corporation by state and/or federal authority and is governed by its Articles of Corporation and Bylaws.

There are two types of corporate structures. A closely held private corporation is one where there are a small number of shareholders with restrictions on trading stock shares, and holders are usually board members and officers who work for the company.

A publicly held corporation, in contrast, has shareholders who are part of the general public, demand for public shares is broader using easily accessible stock exchanges, and there are generally no stock transfer restrictions. Major shareholders are often elected to the Board of Directors.

Advantages of incorporating include limited personal liability, longevity through establishment of a corporate structure, specialized management, and relative ease of raising capital. As a corporate entity, the firm may issue stock and sell bonds in order to raise capital.

As a chief disadvantage, corporations face double taxation. This means a corporation pays a tax on its income when it is earned, and its shareholders pay a tax on their income when it is distributed to them in the form of dividends, and when they sell the stock for a capital gain.

An exception to the double taxation drawback is the formation of a "subchapter S" corporation under Internal Revenue Service law. It allows smaller corporations to have "flow-through" taxation status as with a sole proprietorships and partnerships. Only the personal income from the firm, not corporate profits, is assessed upon the stock owners. Certain qualifications, a limit of 75 stockholders for example, have to be met in order to qualify as an S-Corporation.

Corporations are complex and rather expensive to start and continue to operate. State and federal laws require periodic reporting of sales, more stringent safety and

Business Type #3: Corporation

environmental regulations and compliance, and maintenance of a prospectus and corporate headquarters.

The procedure to incorporate starts with choosing a proper name for the firm (which is not used by another company). Articles of Incorporation and Bylaws that describe precisely how the business is to be run must be filed with the state (and sometimes federal and even foreign governments).

Profits, losses, and distributions must be reported periodically, methods of capitalizing and financing must also be made to government agencies and stockholders. There are a number of filing fees and costs to attorneys, advertising and publishing firms also associated with the incorporating process.

Tax information for corporations. Retrieved from http://www.irs.gov/Businesses/Corporations

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