

FREE BIZNIZ STARTUP GUIDE

# FREE BIZNIZ STARTUP GUIDE

LEARN ALL ABOUT LLCs, CORPORATIONS, AND S-CORPORATIONS



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# 1. Introduction

Biznizstarter.com was started and is run by MasConcepts Incorporated, a company whose purpose it is to help the public and legal professionals with their legal document preparation needs. MasConcepts Incorporated has provided incorporation and LLC Startup services for many years as part of the many services we offer.

A couple of years ago, a couple partners at MasConcepts Incorporated noticed that people were starting companies not just to start new businesses but also to protect their personal assets and structure their economic lives. These partners realized that LLCs and Corporations were quickly being used by Americans to reclaim control over their financial future.

MasConcepts Incorporated decided to begin networking nationally with other professionals in the Startup services industry so that we could offer incorporation services to the public in an efficient and affordable manner. Since then MasConcepts Incorporated has been able to form a national network where we can now offer anyone in the country the ability to form an LLC, Corporation (C-Corp and S-Corp), or Non-Profit organization, quickly and affordably. We have negotiated fantastic rates with the top Registered Agent of Process companies so that our clients can receive the best service for their new companies.

MasConcepts Incorporated offers our clients the ability to start a company in any state of their choice, to acquire the service of a company to be their registered agent of process, applies for a Federal Employer ID Number from the IRS and drafts all of the legal documents necessary to open a bank account with any bank.

As part of MasConcepts Incorporated's mission to provide people in the USA with Startup Services, we have created free e-books to educate the population on every aspect of starting a new company. We are very proud to be able to provide you with this service and thank you in advance for your business.

## 2. What is an LLC?

*This article was originally published on [www.sba.gov](http://www.sba.gov) and is being republished here for educational purposes.*

A limited liability company (LLC) is a hybrid type of legal structure that provides the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership.

The "owners" of an LLC are referred to as "members." Depending on the state, the members can consist of a single individual (one owner), two or more individuals, corporations or other LLCs.

Unlike shareholders in a corporation, LLCs are not taxed as a separate business entity. Instead, all profits and losses are "passed through" the business to each member of the LLC. LLC members report profits and losses on their personal federal tax returns, just like the owners of a partnership would.

### Forming an LLC

While each state has slight variations to forming an LLC, they all adhere to some general principles:

- **Choose a Business Name.** There are 3 rules that your LLC name needs to follow: (1) it must be different from an existing LLC in your state, (2) it must indicate that it's an LLC (such as "LLC" or Limited Company") and (3) it must not include words restricted by your state (such as "bank" and "insurance"). Your business name is automatically registered with your state when you register your business, so you do not have to go through a separate process. Read more here about [choosing a business name](#).
- **File the Articles of Organization.** The "articles of organization" is a simple document that legitimizes your LLC and includes information like your business name, address, and the names of its members. For most states, you file with the Secretary of State. However, other states may require that you file with a different office such as the State Corporation Commission, Department of Commerce and Consumer Affairs, Department of Consumer and Regulatory Affairs, or the Division of Corporations & Commercial Code.
- **Create an Operating Agreement.** Most states do not require operating agreements. However, an operating agreement is highly recommended for multi-member LLCs because it structures your LLC's finances and organization, and provides rules and regulations for smooth operation. The operating agreement usually includes percentage of interests, allocation of profits and losses, member's rights and responsibilities and other provisions.
- **Obtain Licenses and Permits.** Once your business is registered, you must obtain business licenses and permits. Regulations vary by industry, state and locality. Refer to the [Business License and Permit](#) guide to find a listing of federal, state and local permits, licenses and registrations you'll need to run a business.

- **Announce Your Business.** Some states, including Arizona and New York, require the extra step of publishing a statement in your local newspaper about your LLC formation. Check with your state's business filing office for requirements in your area.

## LLC Tax Obligations

In the eyes of the federal government, an LLC is not a separate tax entity, so the business itself is not taxed. Instead, all federal income taxes are passed on to the LLC's members and are paid through their personal income tax. While the federal government does not tax income on an LLC, some states do, so check with your [state's income tax agency](#).

Since an LLC is not recognized as a business entity for taxation purposes, all LLCs must file as a corporation, partnership, or sole proprietorship tax return. Certain LLCs are automatically classified and taxed as a corporation by federal tax law.

Learn more about your [tax obligations as an LLC](#).

## Advantages of an LLC

- **Limited Liability.** Members are protected from personal liability for business decisions or actions of the LLC. This means that if the LLC incurs debt or is sued, members' personal assets are usually exempt. This is like the liability protections afforded to shareholders of a corporation. Keep in mind that limited liability means "limited" liability - members are not necessarily shielded from wrongful acts, including those of their employees.
- **Less Recordkeeping.** An LLC's operational ease is one of its greatest advantages. Compared to an S-Corporation, there is less registration paperwork and their start-up costs are lower.
- **Sharing of Profits.** There are fewer restrictions on profit sharing within an LLC, as members distribute profits as they see fit. Members might contribute different proportions of capital and sweat equity. Consequently, it's up to the members themselves to decide who has earned what percentage of the profits or losses.

## Disadvantages of an LLC

- **Limited Life.** In many states, when a member leaves an LLC, the business is dissolved and the members must fulfill all remaining legal and business obligations to close the business. The remaining members can decide if they want to start a new LLC or part ways. However, you can include provisions in your operating agreement to prolong the life of the LLC if a member decides to leave the business.
- **Self-Employment Taxes.** Members of an LLC are considered self-employed and must pay the self-employment tax contributions towards Medicare and Social Security. The entire net income of the LLC is subject to this tax.

## Combining the Benefits of an LLC with an S Corporation

There is always the possibility of requesting [S corporation](#) status for your LLC. An attorney can advise you on the pros and cons. You'll have to make a special election with the IRS to have the

LLC taxed as an S corporation using [Form 2553](#). You must file prior to the first two months and fifteen days of the beginning of the tax year in which the election is to take effect.

The LLC remains a limited liability company from a legal standpoint, but for tax purposes it can be treated as an S corporation. Be sure to contact the state's income tax agency where you plan to file your election form. Ask about the tax requirements and if they recognize elections of other entities (such as the S corporation).

## 3. What is a Corporation?

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A corporation (sometimes referred to as a C corporation) is an independent legal entity owned by shareholders. This means that the corporation itself, not the shareholders that own it, is held legally liable for the actions and debts the business incurs.

Corporations are more complex than other business structures because they tend to have costly administrative fees and complex tax and legal requirements. Because of these issues, corporations are generally suggested for established, larger companies with multiple employees.

For businesses in that position, corporations offer the ability to sell ownership shares in the business through stock offerings. “Going public” through an initial public offering (IPO) is a major selling point in attracting investment capital and high quality employees.

### Forming a Corporation

A corporation is formed under the laws of the state in which it is registered. To form a corporation you’ll need to establish your [business name](#) and register your legal name with your state government. If you choose to operate under a name different than the officially registered name, you’ll most likely have to file a fictitious name (also known as an assumed name, trade name, or DBA name, short for “doing business as”). State laws vary, but generally corporations must include a corporate designation (Corporation, Incorporated, Limited) at the end of the business name.

To register your business as a corporation, you need to file certain documents, typically articles of incorporation, with your state’s Secretary of State office. Some states require corporations to establish directors and issue stock certificates to initial shareholders in the registration process. Contact your state business entity registration office to find out about specific filing requirements in the state where you form your business.

Once your business is registered, you must obtain business licenses and permits. Regulations vary by industry, state and locality. Refer to our [Business License and Permit](#) guide to find a listing of federal, state and local permits, licenses and registrations you’ll need to run a business.

If you are hiring employees, read more about [federal and state regulations for employers](#).

### Corporation Taxes

Corporations are required to pay federal, state, and in some cases, local taxes. Most businesses must register with the IRS and [state and local revenue agencies](#), and receive a tax ID number or permit.

Unlike sole proprietors and partnerships, corporations pay income tax on their profits. In some cases, corporations are taxed twice - first, when the company makes a profit, and again when dividends are paid to shareholders on their personal tax returns.

Learn more about your [tax obligations as a corporation](#).

### **Advantages of a Corporation**

- **Limited Liability.** When it comes to taking responsibility for business debts and actions of a corporation, shareholders' personal assets are protected. Shareholders can generally only be held accountable for their investment in stock of the company.
- **Ability to Generate Capital.** Corporations have an advantage when it comes to raising capital for their business - the ability to raise funds through the sale of stock.
- **Corporate Tax Treatment.** Corporations file taxes separately from their owners. Owners of a corporation only pay taxes on corporate profits paid to them in the form of salaries, bonuses, and dividends, while any additional profits are awarded a corporate tax rate, which is usually lower than a personal income tax rate.
- **Attractive to Potential Employees.** Corporations are generally able to attract and hire high-quality and motivated employees because they offer competitive benefits and the potential for partial ownership through stock options.

### **Disadvantages of a Corporation**

- **Time and Money.** Corporations are costly and time-consuming ventures to start and operate. Incorporating requires start-up, operating and tax costs that most other structures do not require.
- **Double Taxing.** In some cases, corporations are taxed twice - first, when the company makes a profit, and again when dividends are paid to shareholders.
- **Additional Paperwork.** Because corporations are highly regulated by federal, state, and in some cases local agencies, there are increased paperwork and recordkeeping burdens associated with this entity.

## 4. What is an S-Corporation?

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An S corporation (also referred to as an S corp) is a special type of corporation created through an IRS tax election. An eligible domestic corporation can avoid double taxation (once to the corporation and again to the shareholders) by electing to be treated as an S corporation.

An S corp is a corporation with the Subchapter S designation from the IRS. What makes the S corp different from a traditional corporation (C corp) is that profits and losses can pass through to your personal tax return. Consequently, the business is not taxed itself. Only the shareholders are taxed. There is an important caveat, however: any shareholder who works for the company must pay him or herself "reasonable compensation." Basically, the shareholder must be paid fair market value, or the IRS might reclassify any additional corporate earnings as "wages."

### **Forming an S Corporation**

To file as an S corporation, you must first file as a corporation. After you are considered a corporation, all shareholders must sign and file [Form 2553](#) to elect your corporation to become an S corporation.

Once your business is registered, you must obtain business licenses and permits. Regulations vary by industry, state and locality. Refer to our [Business License and Permit](#) guide to learn more.

### **Combining the Benefits of an LLC with an S Corp**

There is always the possibility of requesting S corp status for your LLC. Your attorney can advise you on the pros and cons. You'll have to make a special election with the IRS to have the LLC taxed as an S corp using Form 2553. And you must file it before the first two months and fifteen days of the beginning of the tax year in which the election is to take effect.

The LLC remains a limited liability company from a legal standpoint, but for tax purposes it's treated as an S corp. Be sure to contact your state's income tax agency where you will file the election form to learn about tax requirements.

### **Taxes**

All states do not tax S corps equally. Most recognize them similarly to the federal government and tax the shareholders accordingly. However, some states (like Massachusetts) tax S corps on profits above a specified limit. Other states don't recognize the S corp election and treat the business as a C corp with all the tax ramifications. Some states (like New York and New Jersey) tax both the S corp's profits and the shareholder's proportional shares of the profits.

Your corporation must file the Form 2553 to elect "S" status within two months and 15 days after the beginning of the tax year or any time before the tax year for the status to be in effect.

Learn more about your [tax obligations as a S corporation](#).

### **Advantages of an S Corporation**

- **Tax Savings.** One of the best features of the S corp is the tax savings for you and your business. While members of an LLC are subject to employment tax on the entire net income of the business, only the wages of the S corp shareholder who is an employee are subject to employment tax. The remaining income is paid to the owner as a "distribution," which is taxed at a lower rate, if at all.
- **Business Expense Tax Credits.** Some expenses that shareholder/employees incur can be written off as [business expenses](#). Nevertheless, if such an employee owns 2% or more shares, then benefits like health and life insurance are deemed taxable income.
- **Independent Life.** An S corp designation also allows a business to have an independent life, separate from its shareholders. If a shareholder leaves the company, or sells his or her shares, the S corp can continue doing business relatively undisturbed. Maintaining the business as a distinct corporate entity defines clear lines between the shareholders and the business that improve the protection of the shareholders.

### **Disadvantages of an S Corporation**

- **Stricter Operational Processes.** As a separate structure, S corps require scheduled director and shareholder meetings, minutes from those meetings, adoption and updates to by-laws, stock transfers and records maintenance.
- **Shareholder Compensation Requirements.** A shareholder must receive reasonable compensation. The IRS takes notice of shareholder red flags like low salary/high distribution combinations, and may reclassify your distributions as wages. You could pay a higher employment tax because of an audit with these results.

## 5. What is a Fictitious Business Name or Doing Business As Name?

*This article was originally published on [www.sba.gov](http://www.sba.gov) and is being republished here for educational purposes.*

Naming your business is an important branding exercise, but if you choose to name your business as anything other than your own personal name then you'll need to register it with the appropriate authorities.

This process is known as registering your “Doing Business As” (DBA) name.

### What is a “Doing Business As” Name?

A fictitious name (or assumed name, trade name or DBA name) is a business name that is different from your personal name, the names of your partners or the officially registered name of your LLC or corporation.

It's important to note that when you form a business, the legal name of the business defaults to the name of the person or entity that owns the business, unless you choose to rename it and register it as a DBA name.

For example, consider this scenario: John Smith sets up a painting business. Rather than operate under his own name, John instead chooses to name his business: “John Smith Painting”. This name is considered an assumed name and John will need to register it with the appropriate local government agency.

The legal name of your business is required on all government forms and applications, including your application for employer tax IDs, licenses and permits.

### Do I Need a “Doing Business As” Name?

A DBA is needed in the following scenarios:

- **Sole Proprietors or Partnerships** – If you wish to start a business under anything other than your real name, you'll need to register a DBA so that you can do business as another name.
- **Existing Corporations or LLCs** – If your business is already set up and you want to do business under a name other than your existing [corporation](#) or [LLC](#) name, you will need to register a DBA.

*Note:* Not all states require the registering of fictitious business names or DBAs.

### How to Register your “Doing Business As” Name

Registering your DBA is done either with your county clerk's office or with your state government, depending on where your business is located. There are a few states that do not require the registering of fictitious business names.

## 6. What is a Registered Agent of Process?

*This article was originally published on [www.northwestregisteredagent.com](http://www.northwestregisteredagent.com) and is being republished here for educational purposes.*

### Registered Agent Service Requirements

In every state, when you form a business entity like a Limited Liability Company (LLC) or a corporation, you will be required to appoint a registered agent for your business. This requirement to designate a registered agent (aka: statutory agent, resident agent, or corporate service of process agent) came about as an aspect of what is known as due process. Due process states that before a lawsuit or other legal action can move forward in the courts, all parties in the lawsuit must be properly notified. Registered agents serve as a way to ensure your business can be properly notified, should it be involved in a lawsuit.

Registered agents also serve as your business' main point of contact with the state. When the state needs to communicate with or send tax forms or annual reports to your business, it will do so through your registered agent. In short, your registered agent accepts all tax and legal documents on your business' behalf.

### Hire a Registered Agent or Be Your Own?

It is true that in all states, you can be your own business' registered agent. But do you want to be? Being a registered agent means being available at your business' location during normal business hours, five days a week, something most new business owners have trouble doing since they're busy starting their business. Being a registered agent also means being responsible for tax forms and tracking annual report dates with the state, things that can easily be forgotten and cost you in the long run. The one upside to not hiring a registered agent is you'll save the annual fee, typically around \$100. But the freedom you gain from hiring one often makes up for the expenditure.

### What You Should Look For in a Registered Agent:

There are plenty of companies that offer registered agent service. As you can see on the registered agent market share charts, some companies own much larger shares of the market than others. But no matter the size of the company offering the service, you should make sure they offer you some form of the following:

1. **A physical, commercial, trustworthy office location**

Almost all our competitors, even the ones bigger than us operate out of residential addresses and peoples homes in some states. We have no residential addresses and

operate out of commercial offices in every state. The registered agent you hire needs a physical location in the state where your business is. Why? Because a registered agent is the person or business officially designated to accept state and legal documents on behalf of your business. It is also required that your registered agent has a physical street address (a P.O. Box will not suffice), where they can be reached during normal business hours. We believe as a leader in the registered agent service industry, that it's important you use commercial locations, not residential addresses.

2. **Compliance reminders**

When running a business, you deal with a lot. The last thing you need to worry about is business entity compliance issues with the state. Your registered agent should do this for you. A hired registered agent service will receive notification from the state. In turn, they should have a way of notifying you quickly, so that your business can remain in good standing with the state and avoid costly fees and penalties.

3. **Instant access to your documents**

Your business will receive time-sensitive legal and state documents. Some registered agent services offer a secure online account where you can view your business' sensitive, important documents. These documents should be locally scanned, safe, and available to you whenever you choose or need to view them.

4. **A vast knowledge base and customer service**

Customer service should not translate to you calling and instantly picking options on an automated server. Customer service means that you call a phone number and talk to a real human who knows what you're talking about and can help you solve any business entity problems. If you choose to pay for registered agent service, this should be a given.

5. **Help with filings**

If you hire a registered agent, they should be knowledgeable enough and have the resources to help you register your new business entity with the state. This service should be able to personally contact and work with your state in order to help get your business up and running.

## Bonus: Biznizstarter.com Coupons and Discounts

<b>Service</b>	<b>Coupon Code</b>	<b>Discount</b>	<b>Expires</b>
Registered Agent	25regagent	\$25	1/1/18
Articles of Incorporation	10artcl	\$10	1/1/18
Statement of Information/Annual Statement	10info	\$10	1/1/18
Bylaws/Minutes/Operating Agreement/Resolutions	10bmor	\$10	1/1/18
Employer ID Number Application	10ein	\$10	1/1/18