



What is the difference between a corporation and an LLC?

When starting a business in Ohio, one of the first and most critical decisions you'll make is choosing the right business entity structure. Two common options are the Corporation and the Limited Liability Company (LLC). Each has its own advantages and considerations, and your choice will depend on various factors relevant to your business. In this article, we'll explore the distinctions between these two business structures to help you make an informed decision.

Considerations for LLCs

Let's begin by examining the Limited Liability Company (LLC) and its key characteristics:

1. Limited Liability: As the name suggests, an LLC provides members with limited liability. This means that your personal assets are generally shielded from the business's debts or losses, offering protection in case of financial difficulties.

2. Management Flexibility: LLCs offer a high degree of flexibility in their management structure. You can choose to have the company managed by its members, allowing for direct involvement in day-to-day operations, or you can designate managers to handle these responsibilities.

3. Ownership Structure: LLCs offer versatility in the distribution of ownership. Members are not required to contribute equally financially to have an equal ownership stake. The Operating Agreement, a contract governing the LLC's structure, sets the rules for its operation and ownership distribution.

4. Taxation Flexibility: LLCs can choose their tax classification. By default, they are taxed as "pass-through" entities, where profits and losses are passed through to individual members, simplifying tax reporting. Operating costs and losses can also be deducted on personal tax returns.

5. Maintenance Ease: LLCs are relatively easy to maintain, with no annual meeting or reporting requirements.

Considerations for Corporations

Now, let's explore the Corporation, a more complex business entity that offers unique advantages:

1. Limited Liability: Similar to LLCs, corporations provide shareholders with limited personal liability, protecting personal assets from business debts.

2. Formal Requirements: Corporations have formal requirements, including annual shareholder meetings and the filing of annual reports with the



state. They follow strict management guidelines, with a designated Board of Directors overseeing management and officers handling day-to-day operations.

3. Ownership Structure: Corporations issue shares of stock to owners (shareholders). This structure makes corporations the preferred choice when seeking outside investors to scale the business.

4. Taxation: Corporations are taxed separately from their owners, potentially facing double taxation on

profits and dividends. While they pay a flat tax rate on profits (currently 21%), dividends are not tax-deductible and are taxed at the shareholder level.

5. Taxation Flexibility: Corporations can elect S-corporation status to enjoy pass-through taxation similar to an LLC, mitigating the issue of double taxation. We will cover S-corporation status in a future article.

Conclusion

Your choice between a Corporation and an LLC should align with your business goals, risk tolerance, and taxation preferences. LLCs offer simplicity, flexibility, and pass-through taxation, making them an attractive option for small to medium-sized businesses. On the other hand, Corporations are better suited for large-scale growth and attracting external investors, but they come with more formalities and potential double taxation.

For personalized guidance and to make an informed decision based on your specific circumstances, it's advisable to consult with experienced business attorneys. They can help you navigate the complexities of entity selection and ensure that your chosen structure aligns with your business objectives.