Business entities can take many different forms - sole proprietorships, partnerships, limited liability companies (LLC), and corporations are the most common ones. As startup sole proprietorships and partnerships begin to grow, the ownership and management realize the necessity of creating a better business structure for the benefits that it will provide, including protecting the company's assets and shareholders, taking advantage of the tax benefits, and allowing for greater future growth. The most likely entity to establish is a corporation or an LLC, but which is the better choice?

While there are different variations of corporations (non-profits are unique, for example), the two main types are C corporations and S corporations. When incorporating a company, the default form is a C corporation. Companies must elect to be treated as an S (small business) corporation by the IRS, should they wish to do so, and if they meet certain criteria, such as having no more than 100 shareholders that does not include partnerships, corporations or non-resident aliens, and having only one class of stock. C corporations are taxed on their profits, and the shareholders are taxed on the dividends they earn, which is called "double taxation." Conversely, S corporations have their income or loss pass through to the shareholders, who report that on their personal tax returns and pay tax at their individual income tax rates.

LLCs are similar to S corporations in that they provide a shield to personal liability, and they also enjoy the benefits of pass through taxation. However, LLCs do not have the same restrictions relating to the number and type of owners, and there are fewer administrative requirements. Also, LLC ownership can create the kind of management structure they choose, whereas corporations are required to have a board of directors and certain officers. While the LLC model often is the easier one to establish and operate, there may be situations where a corporation would be the preferable vehicle, for instance where the company plans to approach outside equity investors or to even go public someday.

Although there are distinctions between C corporations, S corporations and LLCs, there are similarities, too. Once created, each becomes a legal "person," insulating the owners' legal liability for the debts and actions of the company, and all three can be owned and managed by a single individual (in most states).

Additionally, in order to ensure the limitation of personal liability, all must follow certain financial, accounting, recordkeeping and operational formalities.

As the previous discussion shows, when establishing a corporation or an LLC, it is important to consider the costs and benefits of each from both a legal and a tax/accounting perspective. Accordingly, consult with your accountant to discuss the advantages and disadvantages of the different structures based on your unique situation and forecasts, and then talk to your attorney about setting up the right type of company. With help from each, you can be sure to minimize your personal liability, maximize your tax benefits, and create the conditions for future success.