# Henry4Biz.org Tips for Starting/Owning a Small Business

# **Legal Aspects of Starting A Business**

### Sponsored By:



Henry County
Development Authority
140 Henry Parkway
McDonough, Georgia 30253
770-288-8000
www.hcda.org



Henry County Chamber of Commerce 1709 Highway 20 West McDonough, Georgia 30253 770-957-5786 www.henrycounty.com

## **Legal Forms of Business:**

**Sole Proprietor** Usually owned and operated by one person. Under the law, it is not actually considered a legal entity. It is instead considered an extension of the person who owns the business. This individual has sole ownership of assets, but is also solely liable for the debts of the business.

**Partnership** A general partnership is comprised of two or more individuals who join to start a business. Liability of partners limited to extend of investment. Dissolved upon death or departure of a partner. Written partnership agreement recommended. All partners liable for each partner's actions with or without consent. Limited (silent) partners contribute capital and share in profit/losses. However, limited partners take no part in running the business and are not held liable for the organization's debts.

Corporation (C or S) is an entity, which much be approved by the state of Georgia through the Georgia Secretary of State (sos.georgia.gov). A corporation must file federal, state and local taxes on its operations. One advantage to a corporation is the protection from liability afforded to shareholders. However, when an organization is small, creditors may require personal guarantees of predominant owners. Another advantage—the ease of raising capital through the sale of common or preferred stock. Disadvantages—organization's income will essentially be taxed twice (once for the business and again on the shareholders' personal income tax after collecting dividends). C corporations have their own tax identification numbers and pay their own taxes. S corporation is the opposite. It is not taxed as if it is a corporation. Instead it is taxed similarly to a partnership. Its gain and losses are reflected on the personal income tax of the shareholders. In order to incorporate your business, contact the Georgia Secretary of State. You will then reserve your corporation name. The incorporation process must be completed within 90 days. The Georgia Secretary of State will instruct you in the completion of all documents needed. You will be required to pay an incorporation fee every year by April 1.

Georgia Secretary of State 315 West Tower, 2 MLK, Jr. Dr. Atlanta, GA 30334 Phone: 404-656-2817 Website: sos.ga.gov

This incorporation process includes publishing your intent to incorporate in the local newspaper's legal publication. Newspapers do charge for this service. To publish your intent to incorporate, contact:

Henry Daily Herald Legal Advertising Department 38 Sloan Street, McDonough, GA 30253 (physical address) P.O. Box 278, McDonough, GA 30253 (mailing address) Phone: 770-957-9161

Email: legalshh@henryherald.com

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### **Legal Forms of Business Continued:**

**Limited Liability Company (LLC)** is one that is owned by two or more persons know as members. It is a mixture of other forms of organization. This form combines some of the partnership and corporation's best features. Similar to a corporation, you must reserve a name and file the articles of incorporation. You and your fellow members should write an operating agreement to control the conduct of the business.

An LLC shields the personal assets of members as if they were shareholders in a corporation. It also eliminates double taxation. Because an LLC is a somewhat new organizational form, it is unclear how the partnership tax rules will apply. You may not be able to conduct inter-state trade as an LLC. Many state and foreign governments have not yet approved this form. In addition an LLC may not have a perpetual life. While this form of organization is gaining popularity, you must take great care in the establishment of an LLC to insure pass-through tax treatment.

#### Please note:

It is very important that you consult with someone who is knowledge on the subject before making a decision. You may want to seek the assistance of an attorney or contact the Clayton State University Small Business Development Center for more information.

For a list of local attorneys:

Visit the Henry County Chamber of Commerce at www.henrycounty.com, click on "Member Directory"

Clayton State University Small Business Development Center (SBDC) School of Business Suite A-31

Morrow, GA 30260

Phone: 678-466-5100

Website: business.clayton.edu/SBDC