

Legal Terms Glossary

Business Legal Structures

Sole Proprietorship: The simplest form of entity but also the riskiest because you are individually doing business under either your own name or a trade name.

Partnership: Very much like a sole proprietorship but split between two people. There are two forms:

- **General Partnership:** all owners/partners are equally responsible for the business' debts, each assuming unlimited liability.
- **Limited Partnership:** Owners take on the role of a limited partner (LP) who reports to a general partner. The LP has less responsibility in the event of a company debt or accountability.

Corporation: A corporation is a common structure for large businesses and are owned by their stockholders/shareholders who share in profits and losses. Business owner's and shareholders personal assets are protected from creditors.

- **S Corporation:** The owners of the S corporation are called shareholders and they are protected from liability just as they would be if they had an incorporated business.
- **C Corporation:** A C corporation is a business entity that is taxed twice; once on the corporation's income and another tax to the shareholders when the profits are distributed.

Limited Liability Corporation: The entity of choice for small businesses, an LLC is a business structure that combines pass-through taxation (like in a partnership or sole proprietorship) with the limited liability of a corporation. It is a legal form of a company that provides protection and limited liability to its owners.

Grasshopper Academy

Determining Your Business Legal Structure

Legal Terms

Liability: Condition of being legally bound or obligated to do something which may be enforced in the courts, including to make good on any loss or damage that occurs in a transaction.

Investments: An asset that is purchased with the hope that it will generate income in the future.

Business Entity: An organization established as a separate division for the purposes of taxes. Examples: Corporations, LLC and sole proprietorships.

Company: An organization formed to carry on a business.

Assets: The resources a business owns or acquire through transactions, such as investments, property, and equipment.

Joint Venture: A temporary partnership formed to achieve specific objectives.

Strategic Partnership: A formal alliance between two companies but not legally affiliated.

Tax Terms

Not a Taxable Entity: the business and owner are legally the same. Sole proprietor pays all taxes.

Pass-through Entity: (Also known as "flow-through entities") Owners are directly taxed individually. Pass-through entities are considered "non-entities" because they are not taxed.

Separate Taxable Entity: Corporation pays taxes based on net income each year.

Double Taxation: Tax is paid first by the corporation on its income and then taxed again as personal income when distributed to stockholders/shareholders as dividend.

Grasshopper Academy

Determining Your Business Legal Structure

Income tax: A pay-as-you-go-tax that you pay as you earn or receive income during the year.

Self-employment tax: a social security and Medicare tax for employees who work for themselves.

Employment Taxes: As the employer, you have certain employment tax responsibilities that you must pay and forms you must file.

Excise tax: Taxes paid when purchases are made on a specific good. Excise taxes are often included in the price of the product.