FILE 04 — LAUNCH YOUR BUSINESS

Choosing a *Business Structure.*

The legal form you pick shapes taxes, liability, paperwork, and how much of your personal life sits on the table.

SOURCE
sba.gov/business-guide/launch-your-business
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THE SIMPLEST STRUCTURES

Sole Proprietorship & Partnership.

01 · ONE OWNER

Sole *Proprietorship.*

The default. If you do business and don't register otherwise, you already are one.

SETUP	Automatic. No state filing required to exist as a business.
LIABILITY	Unlimited — personal and business assets are not separated.
TAXES	Self-employment tax plus personal income tax.
FUNDING	Hard. Can't sell stock; banks hesitate to lend.
GOOD FOR	Low-risk ventures and owners testing an idea before going formal.

02 · TWO OR MORE OWNERS

Partnership.

Two common flavors: limited partnerships (LP) and limited liability partnerships (LLP).

LP	One general partner has unlimited liability; the rest are limited — and have limited control.
LLP	Every partner gets limited liability and protection from other partners' actions.
TAXES	Profits pass through to personal returns; general partner owes self-employment tax.
AGREEMENT	Control and profit splits are documented in a partnership agreement.
GOOD FOR	Professional groups — attorneys, doctors — and co-founder pairs.

THE HYBRID

The *Limited Liability Company*.

An LLC borrows the *liability shield* of a corporation and the *pass-through taxes* of a partnership.

Your personal assets — vehicle, home, savings — stay out of reach in most bankruptcies and lawsuits the business faces.

BEST FOR

Medium- to higher-risk businesses, owners with personal assets to protect, and anyone wanting a lower effective tax rate than a corporation.

01 Personal asset protection

Members aren't on the hook for the LLC's debts in most cases. The shield is the headline benefit.

02 Pass-through taxation

Profits and losses flow to your personal return — no corporate layer — but members owe self-employment tax on Medicare and Social Security.

03 Limited life in many states

A member joining or leaving can force dissolution and re-formation unless your operating agreement governs buy-sell and transfer.

04 Flexible tax classification

An LLC can elect to be taxed as a C corp, S corp, or even a nonprofit — less common, more setup.

STRONGEST LIABILITY PROTECTION

CORPORATIONS & COOPERATIVES

Six entities, separate from *you*.

DEFAULT CORPORATE FORM

C Corp.

A legal entity wholly separate from its owners. Strongest liability protection, biggest paperwork load. Pays its own income tax — profits can be taxed twice once dividends are paid out.

CAN RAISE CAPITAL VIA STOCK

PASS-THROUGH CORPORATION

S Corp.

Same filings as a C corp, but profits and some losses pass through to owners' personal returns — sidestepping double taxation.

≤ 100 SHAREHOLDERS · IRS ELECTION

MISSION + PROFIT

Benefit Corp.

Taxed like a C corp but accountable to shareholders for a public-benefit purpose. Some states require an annual benefit report.

RECOGNIZED IN MOST STATES

SMALL & PRIVATE

Close Corp.

Fewer formalities, no board required, shares typically barred from public trading. Designed for a small group of shareholders.

RULES VARY BY STATE

TAX-EXEMPT

Nonprofit.

Organized for charity, education, religious, literary, or scientific work. Tax-exempt under §501(c)(3); profits can't be distributed to members.

IRS FILING REQUIRED FOR EXEMPTION

OWNED BY USERS

Cooperative.

Owned by and operated for the people who use its services. Profits distributed to user-owners; one member, one vote — regardless of share count.

ELECTED BOARD · MEMBER VOTING

THE ARITHMETIC OF A BUSINESS

Whichever structure you pick, the math underneath is the same.

$$\textit{Profit} = \textit{Revenue} - \textit{Expenses}$$

WHAT YOU KEEP

MONEY IN

MONEY OUT

IF PROFIT IS NEGATIVE

You're spending your own money — or a lender's — to keep the doors open. Survivable, briefly.

IF PROFIT IS ZERO

You bought yourself a very expensive job. The business pays its bills and nothing else.

IF PROFIT IS POSITIVE

You have something to reinvest, distribute to owners, or save for the next quarter.

BOTH SIDES OF THE EQUATION

Revenue in, *Expenses* out.

Revenue

+ MONEY IN

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R1 **Product sales**

Unit price × units sold. The bedrock of most businesses — physical goods, digital downloads, or licensed software.

PRICE × VOLUME

R2 **Services & billable hours**

Time, expertise, or done-for-you work sold at an hourly, project, or retainer rate.

RATE × HOURS · OR · FIXED FEE

R3 **Subscriptions & recurring**

Monthly or annual access to a product or service. Predictable, compounding, harder to land than one-off sales.

ARPU × ACTIVE SUBSCRIBERS

Expenses

− MONEY OUT

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E1 **Cost of setup**

One-time costs to exist: state registration, legal fees, tax IDs, licenses and permits, accounting setup, initial equipment.

FRONT-LOADED · LARGELY FIXED

E2 **Your time**

The cost most founders forget. Pay yourself an honest hourly rate — if you wouldn't, the business may not actually be profitable.

OPPORTUNITY COST · HOURS × WAGE

E3 **Cost of AI**

Model subscriptions, API usage, automation tools, agents that do the work. Scales with output — budget it like electricity, not software.

USAGE-BASED · PER TOKEN / PER SEAT