

What Are the Six Types of Business Organizations for Tax Purposes?

If you are an aspiring entrepreneur thinking about opening your own business or simply want to learn more information on the different types of business organizations out there, you have come to the right place.

Sole Proprietor Business Organization

A sole proprietor business is unincorporated. In other words, any income that this type of business inquires will be reported and taxed on your individual income tax return form 1040 schedule C. This type of business is good for those who work as an independent contractor. For example: a freelance photographer.

Corporation Tax Classification

A corporation is an incorporated business. Unlike the sole proprietor a corporation is a separate entity and is required to file the form 1120. The benefits from this type of business are that it provides protection to the shareholders of the company both legally and financially. For example, any legal disputes or altercations will be towards the business entity and not on the individual. This type of business benefits those individuals that are looking to open a business with the intention of it to last indefinitely.

Partnership Business Organization

A partnership is an unincorporated business, which is a separate entity from their shareholders. This type of business requires a minimum of two shareholders. Any income or losses in the partnership must be reported on their own individual income tax return proportionate to the percentage of ownership in the partnership. Even though the shareholders are liable for the business one of the benefits is that partners share profits and this may decrease the tax liability due at tax time.

S Corporation Tax Classification

An S Corporation is an incorporated business that has characteristics of both corporation and partnership businesses. S Corporations will benefit individuals who want to have both the liability protection and have tax benefits.

Trust Business Organization

A trust is formed by an individual to insure their property during course of their lifetime and upon death. Many individuals open a trust not only for financial benefits but also to secure any investment or business to a designated beneficiary.

Non-Profit Organization Tax Classification

A non-profit organization is an organization that utilizes revenues acquired to achieve its goals. In other words a non-for profit organization is solely on the purpose of what the organization wants to fulfill and not based on the financial interest from the shareholders. One of the benefits from opening a non for profit is that they are generally exempt from any federal and state taxation.

Now that you are more informed about the six different types of business organizations you are now able to make a wiser financial decision.