Corporation Pros	Corporation Cons
Limited Liability Assuming that all the legal requirements for establishing and maintaining a corporation have been met, a corporation is treated as a *separate legal entity* and, as such, incurs business debts or liabilities on its own behalf. Typically, this means that, *as a shareholder, you are not personally held liable* for the debts and obligations of the corporation if the company cannot pay its debts or is sued. By contrast, a proprietor's or partner's home, savings and other assets can be seized to pay the debts of the business.	Complexities Forming and maintaining a corporation in good standing requires a *significant amount of paperwork, record keeping and accounting*. When a corporation is first established, articles of incorporation must be filed. While each state may have differing requirements on what constitutes "in good standing," typically corporations must hold and record minutes of annual shareholder and director meetings and document major decisions by directors. Also, a corporation needs to keep excellent financial records to facilitate the filing of more complicated tax returns. Thus, *legal, accounting and clerical fees* may become prohibitively expensive.
Tax Benefits Corporations are taxed at a *lower rate* than individuals. In a C corporation, the first $50,000 of federal taxable income is taxed at 15 percent, significantly less than the marginal individual tax bracket of up to 27 percent. Corporations also have *greater flexibility in deducting fringe benefits and other expenses*. The cost of salaries, bonuses, education benefits and dependent care assistance are among the benefits deductible by corporations. In addition, items that are only partially deductible by a sole proprietor *may be fully deductible in a corporation*. For example, while the health insurance deduction for sole proprietors currently is limited to 60 percent of the premium cost, corporations can deduct 100 percent of health insurance benefits paid on behalf of an owner-employee. Finally, retirement plans set up within a corporation may provide additional tax benefits. Self-proprietors pay self-employment taxes (Social Security, Medicare, Workers Compensation) of 15.3 percent on all income earned in the business. In a corporation, *only salaries are subject to these taxes*. This means a sole proprietor who nets $50,000 in taxable income from the business will pay income and self-employment taxes on the full $50,000. The owner of a corporation, on the other hand, could lower his or her tax bill by choosing to pay himself $40,000 in salary and leaving $10,000 in the company's coffers.	Double Taxation When the profits of a corporation are distributed to shareholders as dividends, they are taxed twice - *first as income to the corporation, and then as income to the shareholders*. It is possible to avoid this double taxation by electing S corporation status.

Access to Capital Instead of borrowing money and making interest payments, you can *raise capital through the sale of stock* and other equity interests. Although this involves giving up some ownership of the company, shares offered to investors can be tailored so that you maintain control of the company.	
Continuous Life Unlike a proprietorship or partnership, a company *does not cease to exist upon the death of its owner(s).* If an owner of a corporation dies or wishes to sell his or her interest, the corporation can continue to exist and do business.	
Start-up Expenses While preliminary and investigatory expenses incurred prior to the star-up of a business venture are normally non-deductible. They typically must be amortized as Section 195 expenses over a minimum of 60 months once the business is established. If the business is never initiated, the expenses remain completely non-deductible. However, corporations may have the option to convert these expenses into *ordinary losses, deductible under Section 1244* (Loss on Sale of Small Business Stock).	

Seek Professional Advice. Incorporating your business is not a decision to be taken lightly or without the proper analysis of your company's circumstances. An attorney can help you to evaluate the legal ramifications while a CPA can help you determine whether incorporating makes good business sense or whether you should consider another type of entity such as a Limited Liability Company (LLC) or an S Corporation. Like a corporation, these two entities have advantages and disadvantages, so it's a good idea to learn about all three before deciding what legal form your business should take.

Source: "Pros and Cons of Incorporating Your Business (9/17/02 @ www.smartpros.com/x35328.xml) and "Converting Nondeductible, Nonamortizable Start-up Expenses to Ordinary Section 1244 Losses by Rolf Auster @ National Public Accountant

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