

# Fact Sheet # 15 Business Structures



## Registering Your Business Name

It is recommended, but not required, that you protect your business name by registering it with the Massachusetts Secretary of State's Office. A form may be obtained by calling (617) 727-2850 and involves a fee of \$50. This helps prove the existence of your business in addition to preventing other businesses in the county from using your business name. A separate employer identification number [SS-4 form, also called a tax ID number] from the IRS only takes a few minutes to get and also helps to create separation between you and your business. It may be required, and it is a good idea, to open a business checking account.

## Business Structures – Legal Organization

There are eight different business structures legally recognized in Massachusetts (excluding organizations such as churches and non-profits). While most businesses start out as sole proprietorships or general partnerships, they may eventually find benefits to legal liability and tax consequences of operating under a different structure. Each business structure has pros and cons, including different taxes and filing fees or benefits. Check the [Mass Housing and Economic Development Website](#) for updated specifics.

## A brief description of each structure:

- **Sole Proprietorship** – The simplest form of organization. The business may have a number of employees or hired persons, but a single proprietor owns, runs, and manages the business. No paperwork is needed to file with government agencies to establish the existence of the business. The proprietor has unlimited liability for the actions and debts of the business and income from your business is reported to the IRS as part of your personal income and taxed accordingly.
- **General Partnership** – A partnership agreement between two or more sole proprietors. No paperwork is needed to form this business and partners have unlimited liability. Partners divide responsibility for management and liability as well as the shares of profit or loss according to their internal agreement. Equal shares are assumed unless there is a written agreement that states differently.



- **Limited Partnership** – Also known as a silent partnership wherein an individual joins a partnership but stays out of the management aspects of the business. For remaining silent in the operation, that partner generally obtains the profits of an owner and does not have the legal liability of a full partner. A limited partnership must have at least one general partner who handles the management of the business and who is fully liable for all partnership debts and obligations. This form of ownership is not often used for operating retail or service businesses. Forming a limited partnership is more complex and formal than that of a general partnership.
- **Limited Liability Corporation (LLC)** – A partnership offering the limited liability of a corporation and tax efficiencies and operational flexibility of a partnership. Limited liability means that the owner’s financial liability is limited to a fixed sum, usually the value of the owner’s investment. Paperwork must be filed with the state to establish this form of ownership and management meetings must be held. This is an increasingly common business structure for farms since it limits and separates the liability of the farmer from the farm.
- **Limited Liability Partnership (LLP)** – Like a LLC, a LLP provides limited liability for its owners, while retaining the tax advantages of a partnership. In an LLP, one partner is not responsible or liable for another partner’s misconduct or negligence. Limited liability means that the partners’ financial liability is limited to a fixed sum, usually the value of the partners’ investments. However, it operates like a regular partnership and is not required to file articles of organization with the Secretary of State’s Corporation Division, only to register with the Commonwealth.
- **Business C Corporation** – Structure used by most companies. The business is operated by a management team that reports to a board of directors. Ownership of the business is in the form of stock and shareholders of that stock have different levels of control over management and the board of directors by the quantity held and class of their stock [ex. Class A, B, C, preferred, etc.]. Shareholders have limited liability in the company.
- **Business S Corporation** – A corporation that is operated like a partnership and offers limited liability to shareholders. Paperwork must be filed with the Commonwealth to establish this form of ownership and management meeting must be held.
- **Cooperative** – An organization owned by members who contribute equity toward the business and share in profits generated. This is formed by filing with the state and has similar governance as a C corporation. Voting is either one vote per member or in proportion to patronage of the cooperative. Members have limited liability.