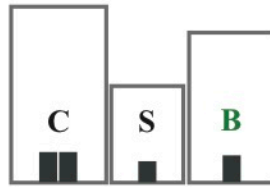


A Graphical Guide to Business Entity Formation

for the State of Hawaii

The information presented here is **not** legal advice. No reader should act or refrain from acting based on information contained herein without seeking the advice of an attorney.

Types and their Pros and Cons



- Profit/loss reported on personal income tax
- fast set-up, even with a general partnership
- sole proprietorships, have least formality

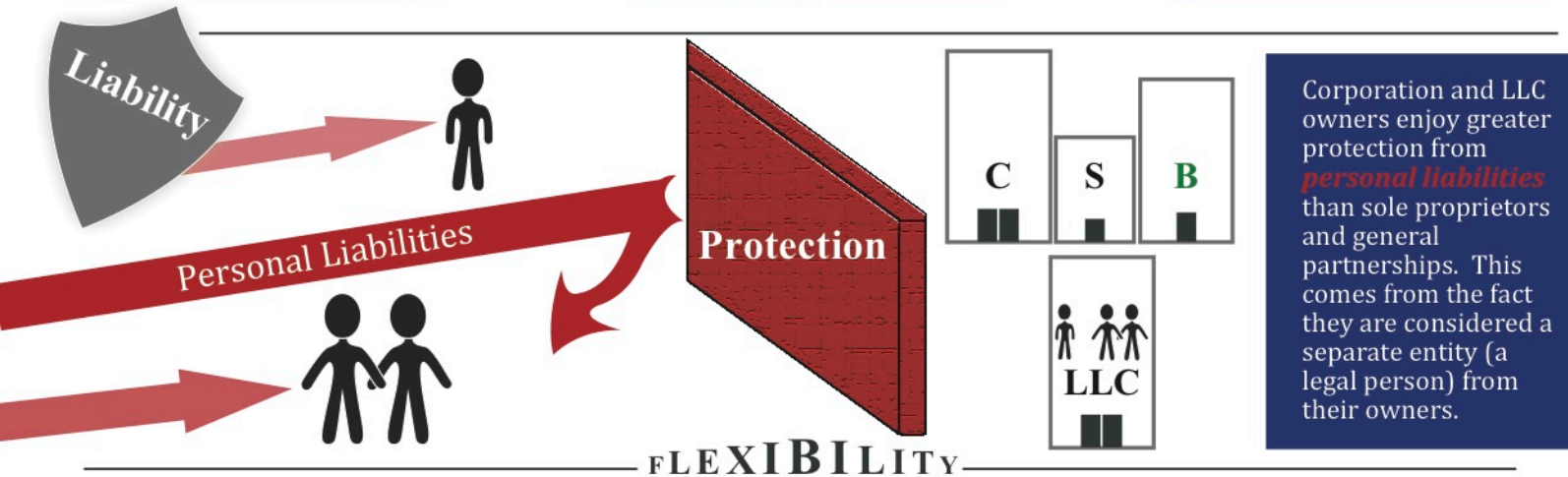
- separate legal entity
- perpetual existence
- transferability of interest, ease of raising capital
- fringe benefits can be deducted as business expense

- "check the box" - can be taxed as either pass-thru entity or a corporation
- profit/loss can be allocated differently than ownership interest
- less formality than corps.

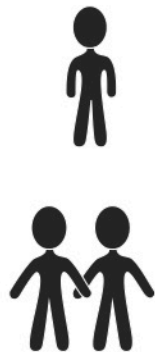
- lacks perpetuity, business dies if owner dies
- sole proprietorship, inability to sell ownership interest
- for both, owner(s) have personal liability for debts

- double taxation, tax on corporate earnings, then tax on dividends
- for c-corps, startup losses cannot be used as effectively to offset individual income tax, "lobster trap"
- for s-corps, restrictions on shareholders

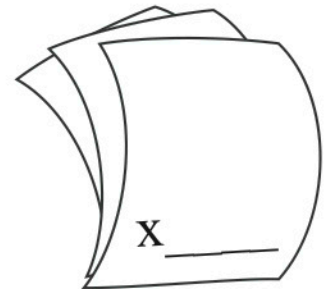
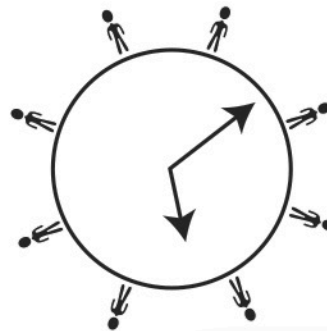
- a member's entire share could be subject to self-employment tax
- more formal than sole proprietorships and partnerships



The fastest way to start a business is a sole proprietorship, followed by a general partnership. A corporation requires a lot of formalities, like paperwork and meetings, but provides better security for investments. A LLC has a mixture of flexibility and formality.



VS



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