

How Do I Choose the Best Legal Structure for My Business?

It's a question that comes up more often than you might think. [About 627,000 new businesses open each and every year in the US](#), including new fitness studios, spas and salons, and integrative health businesses, and each one will need to determine their proper legal structure.

Not sure where to start? This is for you.

What's a legal structure?

Your company's legal structure shapes a number of key business requirements, including the way you do your annual taxes, the types of insurance and liability your company is responsible for, and your overall operating procedures.

Types of legal structures: Pros and cons

To choose the best structure for your company, it's important to understand the most common types of structures for wellness businesses:

Sole Proprietorship

An unincorporated business that is owned and operated by a single person.

PRO

- Pro:** Simple, easy-to-understand structure that provides complete control for the owner.
- Pro:** [Free to form and requires no legal action to establish.](#)
- Pro:** No separation between your personal and business taxes, making tax time easier and more streamlined.

CON

- Con:** The owner pays income tax on the business net profits.
- Con:** The owner is personally liable for the entire business.
- Con:** It can be more difficult to raise capital, and creditors can seize personal assets, if needed, to settle any debts.

Partnership

A business that includes two or more people as owners and operators.

PRO

- Pro:** More flexible structure.
- Pro:** Simple and inexpensive to form; only requires a partnership agreement.
- Pro:** Pass-through taxation means the business itself doesn't pay income taxes. Instead, partners pay their share of the partnership's income or loss on their individual tax returns.
- Pro:** Partners can pool their resources and better support their financial needs.

CON

- Con:** Each partner is responsible for any debts or losses.
- Con:** Partners are liable for the actions of other partners.

Limited Liability Company (LLC)

A combination of sole proprietorship and corporation structures, providing limited liability and pass-through taxation, meaning a single or multiple owner are only taxed once.

PRO

- Pro:** Reduces liability for owners.
- Pro:** Allows LLC members to choose how they will be taxed, as either a partnership or a corporation.
- Pro:** Easier to establish and requires lower filing costs.

CON

- Con:** Requires more work and licensing and filing fees to form than a sole proprietorship or a partnership.
- Con:** Some states enforce franchise/capital taxes on LLCs, which can range from a flat rate to a percentage of the company's revenue.

Corporation

An incorporated business entity that is completely separated from its shareholders, and can enter into contracts, take legal action, own assets, etc. on its own.

PRO

- Pro:** Transparent structure with clear, established roles and associated responsibilities.
- Pro:** Limited liability, since owners are completely separated from the business.

CON

- Con:** There's considerable paperwork to establish and maintain the business as well as related costs for preparation and filing.
- Con:** The business must adhere to local, national, and industry-specific regulations, which can be challenging and time-consuming.
- Con:** Double taxation applies, where both the business and its owners are taxed.

Selecting the right legal structure: Things to keep in mind

Your structure doesn't have to be permanent: Many structures are flexible. If you find that one doesn't work for your business as well as you'd hoped, you can adjust to a different type of structure.

Get some expert advice: Always consult with a lawyer and discuss your legal business structure options.



For more resources to support your wellness business, visit business.mindbody.io/education.

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