

## Legal Terms Glossary

### Business Legal Structures

**Sole Proprietorship:** The simplest form of entity but also the riskiest because you are individually doing business under either your own name or a trade name.

**Partnership:** Very much like a sole proprietorship but split between two people. There are two forms:

- **General Partnership:** all owners/partners are equally responsible for the business' debts, each assuming unlimited liability.
- **Limited Partnership:** Owners take on the role of a limited partner (LP) who reports to a general partner. The LP has less responsibility in the event of a company debt or accountability.

**Corporation:** A corporation is a common structure for large businesses and are owned by their stockholders/shareholders who share in profits and losses. Business owner's and shareholders personal assets are protected from creditors.

- **S Corporation:** The owners of the S corporation are called shareholders and they are protected from liability just as they would be if they had an incorporated business.
- **C Corporation:** A C corporation is a business entity that is taxed twice; once on the corporation's income and another tax to the shareholders when the profits are distributed.

**Limited Liability Corporation:** The entity of choice for small businesses, an LLC is a business structure that combines pass-through taxation (like in a partnership or sole proprietorship) with the limited liability of a corporation. It is a legal form of a company that provides protection and limited liability to its owners.

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Determining Your Business Legal Structure

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**Liability:** Condition of being legally bound or obligated to do something which may be enforced in the courts, including to make good on any loss or damage that occurs in a transaction.

**Investments:** An asset that is purchased with the hope that it will generate income in the future.

**Business Entity:** An organization established as a separate division for the purposes of taxes. Examples: Corporations, LLC and sole proprietorships.

**Company:** An organization formed to carry on a business.

**Assets:** The resources a business owns or acquire through transactions, such as investments, property, and equipment.

**Joint Venture:** A temporary partnership formed to achieve specific objectives.

**Strategic Partnership:** A formal alliance between two companies but not legally affiliated.

## Tax Terms

**Not a Taxable Entity:** the business and owner are legally the same. Sole proprietor pays all taxes.

**Pass-through Entity:** (Also known as "flow-through entities") Owners are directly taxed individually. Pass-through entities are considered "non-entities" because they are not taxed.

**Separate Taxable Entity:** Corporation pays taxes based on net income each year.

**Double Taxation:** Tax is paid first by the corporation on its income and then taxed again as personal income when distributed to stockholders/shareholders as dividend.

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**Income tax:** A pay-as-you-go-tax that you pay as you earn or receive income during the year.

**Self-employment tax:** a social security and Medicare tax for employees who work for themselves.

**Employment Taxes:** As the employer, you have certain employment tax responsibilities that you must pay and forms you must file.

**Excise tax:** Taxes paid when purchases are made on a specific good. Excise taxes are often included in the price of the product.