

Business Structure & Entity Selection — Workbook

This workbook turns the course into a decision you can actually make. Each section mirrors a course module, moving you from understanding liability and pass-through taxes to running the S-Corp math and choosing a structure that fits your stage. Work through the exercises, worksheets, and checklists in order, then use the templates to run your own entity-comparison numbers and track your formation steps and filing deadlines.

The Foundations: Liability, Pass-Through, and the Four Structures

Clarify your liability exposure and lock in the difference between a legal entity and a tax classification before you choose anything.

Exercise: Map Your Liability Exposure

Honestly assess how much personal risk your business carries today. This is the single biggest input to whether you need an entity at all, so be specific rather than optimistic.

- List every way your business could be sued or owe money: employees, premises, contracts, physical harm, large invoices.

- Which personal assets would be exposed today if a judgment hit you: home, savings, car, retirement accounts?

- Have you personally signed or guaranteed any lease, loan, or business credit card, and for how much?

- On a scale of trivial, moderate, or serious, how would you rate your current exposure, and why?

Exercise: Separate Legal Form From Tax Treatment

Test your grasp of the most important distinction in the course by writing out, in your own words, how the two questions differ for your situation.

- In one sentence, what is the difference between forming an LLC and electing how it is taxed?

- By default, how would a single-member LLC you form be taxed, and how would a multi-member one be taxed?

- Which IRS forms change a tax classification: which one elects S-Corp, and which is the general entity-classification election?

- Why is the question rarely LLC versus S-Corp, but rather which tax treatment your LLC should elect?

Checklist: Foundations Readiness Checklist

- Identified every realistic source of liability in the business
- Listed the personal assets currently exposed to a business claim
- Confirmed you understand a sole proprietorship has no corporate veil
- Understood that a personal guarantee survives the corporate veil
- Can explain the difference between a legal entity and a tax classification
- Know the default tax treatment of a single-member and multi-member LLC
- Noted that Form 2553 elects S-Corp and Form 8832 is the entity-classification election

Sole Proprietorship and the LLC: The Starting Structures

Decide whether to form an LLC now and gather everything you need to file it correctly and keep the veil intact.

Worksheet: LLC Formation Information Sheet

Collect every detail you will need before you file your Articles of Organization. Use the exact same legal name everywhere it appears so your records stay unified.

Desired LLC legal name (must include LLC) and confirmed available in state registry

State of formation

Registered agent name and physical in-state address

Member names and ownership percentages

Management structure (member-managed or manager-managed)

State filing fee amount

Annual report or franchise fee and due date

EIN (apply free at irs.gov)

Exercise: Sole Proprietor or LLC: Make the Call

Use your liability map from Section 1 to decide whether to stay a sole proprietor for now or form an LLC. Write down the reasoning so the decision is deliberate, not default.

- Do you have employees, premises, large contracts, or any risk of physically harming someone? If yes, what does that imply?
 - What is your realistic annual net profit right now, and does it justify any ongoing entity fees in your state?
 - What is your state's ongoing LLC cost, including any annual franchise tax such as California's 800 dollar minimum?
 - Based on the answers, will you form an LLC now or operate as a sole proprietor, and what would change that?
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Worksheet: Operating Agreement Outline

Draft the key terms of your operating agreement, especially important if you have partners. Fill in each section so a final document can be written from your notes.

Each member's ownership percentage and capital contribution

How profits and losses are split among members

How major decisions are made and voting rights

What happens if a member leaves, dies, or wants to sell (buyout terms)

How the LLC can be dissolved

Who handles banking, taxes, and day-to-day management

Checklist: LLC Formation and Maintenance Checklist

- Confirmed the LLC name is available and meets state naming rules
- Filed Articles of Organization and paid the state fee
- Appointed a registered agent with a physical in-state address
- Obtained an EIN free from irs.gov
- Opened a dedicated business bank account with no commingling
- Wrote an operating agreement, especially if there are multiple members
- Diarized the annual report or franchise fee deadline to avoid dissolution

The S-Corp Election: Cutting Self-Employment Tax

Run the real numbers on an S-Corp election so you only elect it when the savings clearly beat the added cost.

Worksheet: S-Corp Break-Even Calculator

Work through each figure to see whether an S-Corp election pays off for you this year. Use realistic, defensible numbers, not best-case guesses.

Estimated annual net profit after expenses

Defensible reasonable salary for your role (from market data)

Distribution portion (net profit minus salary)

Self-employment tax avoided (distribution times 15.3 percent)

Added cost: payroll software per year (about 500 to 1,000 dollars)

Added cost: 1120-S corporate return preparation (about 800 to 2,000 dollars)

Net benefit (tax avoided minus total added cost)

Decision: elect S-Corp or stay a default LLC

Exercise: Justify Your Reasonable Salary

The reasonable salary rule caps how aggressively you can shift income to distributions. Build a documented, defensible salary figure you could justify to the IRS.

- What would you have to pay someone else to do your exact job in the business?
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- What salary data sources support that figure (job postings, salary surveys, BLS data for your role and area)?

- How many hours and what duties do you personally devote to the business?

- Does your chosen salary leave a distribution large enough to make the election worthwhile after costs?

Checklist: S-Corp Election Readiness Checklist

- Confirmed net profit is comfortably above roughly 60,000 to 80,000 dollars
- Calculated the break-even and confirmed a clearly positive net benefit
- Set a documented reasonable salary supported by market data
- Chosen a payroll provider such as Gusto, QuickBooks Payroll, or ADP
- Confirmed eligibility: under 100 shareholders, one class of stock, U.S. individual owners
- Marked the Form 2553 deadline (by March 15 for a calendar-year business)
- Budgeted for the separate 1120-S return and ongoing bookkeeping

The C-Corp and Choosing Your Structure

Decide whether the C-Corp fits your goals, then apply the full framework and plan how your structure evolves over time.

Exercise: C-Corp Fit Check

The C-Corp is right only for specific goals. Test whether your plans actually call for it before accepting double taxation.

- Do you plan to raise money from venture capital or angel investors who require a C-Corp?

- Will you issue multiple classes of stock or grant equity and options to a team?

- Do you intend to reinvest profit into growth rather than pay it out to yourself soon?

- Could Qualified Small Business Stock under section 1202 matter for a future large exit?

Worksheet: Entity Decision Framework Worksheet

Answer the three gating questions in order to arrive at your recommended structure. Record the reasoning at each step.

Liability: Do you have employees, premises, big contracts, or harm risk? (Yes means form an LLC)

Profit: Is reliable net profit above roughly 60,000 to 80,000 dollars? (Yes means evaluate an S-Corp election)

Goals: Will you raise venture money, issue stock classes, or pursue a large exit? (Yes means consider a C-Corp)

Recommended structure based on the three answers

The single milestone that would make you change this structure

Whether you need a CPA or attorney to execute this path

Checklist: Implementation and Review Checklist

- Confirmed the recommended structure matches your liability, profit, and goals
- Filed the correct formation or election documents for your chosen path
- Met the Form 2553 deadline if electing S-Corp this year
- Kept business and personal finances fully separate
- Diarized the right annual return: Schedule C, 1065, 1120-S, or 1120
- Documented decisions: operating agreement, board minutes, or salary support
- Scheduled an annual structure review as profit and goals change

Your Action Plan

1. Map your liability exposure and list the personal assets currently at risk in the business.
2. Decide whether to operate as a sole proprietor for now or form an LLC, putting liability protection before tax savings.
3. If forming an LLC, file the Articles of Organization, appoint a registered agent, and get a free EIN from irs.gov.
4. Open a dedicated business bank account and commit to never commingling personal and business funds.
5. Write an operating agreement, especially essential if you have one or more partners.
6. Estimate your annual net profit and set a defensible reasonable salary using real market data.
7. Run the S-Corp break-even: compare the 15.3 percent savings on distributions against payroll and 1120-S costs.
8. If the S-Corp clearly pays off, file Form 2553 by the March 15 deadline and set up payroll.
9. If you plan to raise venture money or grant equity for a big exit, evaluate a Delaware C-Corp and QSBS instead.
10. Diarize all filing deadlines and schedule an annual review to reassess your structure as the business grows.

