



Choosing a Business Structure

The business structure you choose influences everything from day-to-day operations, to taxes, to how much of your personal assets are at risk. You will need to choose your structure before you register your business with the state. Most businesses will need to get a tax ID number also. Consult with a business counselor, attorney, or accountant for more information..

Sole Proprietorship

- Easy to form
- Offers complete managerial control to the owner
- Owner is personally liable for all financial obligations of the business
- No formal action to form a sole proprietorship
- Business is not taxed separately from your personal tax

Partnerships

- Involves two or more people who share profits or losses
- Profits or losses are “passed through” to partners to report on their individual tax returns
- Each partner is personally liable for financial obligations of the business
- Register your business with the state, obtain a tax ID number
- Business does not pay tax, partners report on their personal tax returns

Corporation (C Corp)

- Independent legal entity created to conduct business
- Separate from those who founded it
- Corporation can be taxed on profits and held legally liable for its actions
- Can make a profit
- Avoids personal liability
- Formed under the laws of the state, registered with the state, tax ID, file articles of incorporation

Limited Liability Company (LLC)

- Takes advantage of benefits of both the corporation and partnership forms of business
- Business does not pay federal tax and profits and losses can be passed through to owners without facing corporate taxation
- Owners are shielded from personal liability
- Business name registered with state when you register your business
- File Articles of Incorporation with the Secretary of State
- Members pay self-employment tax towards Medicare and Social Security

Cooperative

- Owned and operated for the benefit of those using its services
- Profits are distributed among the members
- Elected board of directors and officers run the cooperative and members have voting power
- Members purchase shares
- File Articles of Incorporation with the state, register business, obtain tax ID
- Cooperative does not pay federal income taxes, members pay state/federal taxes when they file personal income tax on margins earned by the cooperative

Nonprofit Corporation 501(c)(3)

- Choose board of directors
- Choose a name
- Prepare & file your Articles of Incorporation
- Prepare bylaws
- Hold a meeting
- Set up a corporate records binder
- Obtain federal and state tax exemptions
 - **File your Form 1023 federal tax exemption application**
 - Smaller nonprofits may be eligible to file Form 1023-EZ
 - **Obtain your North Dakota state tax exemptions**
 - Upon receiving your 501(c)(3) tax-exempt status from the IRS, your nonprofit is automatically exempt from state income tax.
 - **Other state reporting and registration requirements.**
 - Depending on your activities and the size of your organization, you may need to register with the state before doing any fundraising activities. Check the Secretary of State's website for information and rules about fundraising and registration requirements for nonprofits.