**The Advantages and Disadvantages of Incorporating Your Small Business**

**6 Benefits of Incorporating Your Small Business**

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The decision of whether or not to incorporate your small business is one you need to consider when you decide to [start a business](http://sbinformation.about.com/od/startingabusiness/a/How-To-Start-A-Business.htm). Some of the benefits of [forming a corporation](http://sbinformation.about.com/od/businesslaw/tp/incorporate.htm) include:

**1. Limited Liability**

Limited personal liability is one of the most common reasons businesses become corporations. A corporation is a distinct legal entity, so incorporating protects the business owner's personal assets, even if the corporation is in debt or facing other liabilities.

**2. Tax Benefits**

Owners of corporations are only taxed on their own salary, bonuses and dividend payments. There are also other tax benefits that are available to some corporations, including insurance premium deductions, deferred tax payments and [income splitting](http://sbinformation.about.com/od/ownership1/g/income-splitting.htm).

**3. Business Credibility**

When a business has completed the process of becoming incorporated, it can have a favorable impact with investors, making it easier to raise capital. Plus, in some cases, there is a perceived permanency and reputability on the part of clients or customers when a business is a corporation.

**4. Stock Incentives**

One of the defining elements of a [stock corporation](http://biztaxlaw.about.com/od/glossarys/g/stockcorp.htm) is the stock structure, which gives board members and employees a share in the ownership of the company. This can be an attractive benefit for employees and can lead to higher employee retention rates.

**5. Perpetual Existence**

Unlike a [sole proprietorship](http://sbinformation.about.com/od/ownership1/a/soleproprietor.htm), a corporation continues to exist even if the owner passes away or leaves the business. A corporation will remain in existence until the shareholders take measures to dissolve it, or until the corporation is merged with another business.

**6. Transferability**

Since a corporation is not tied to its owner, ownership can be transferred to another by selling stock. This is typically governed by the corporation, which can set limits on the transfer of stock, and the laws of the state where the corporation was formed.

Before you decide to incorporate your small business, consider these disadvantages of incorporation:

**1. Cost**

The initial cost of incorporation includes the fee required to file your [articles of incorporation](http://sbinformation.about.com/od/ownership1/g/Articles-Of-Incorporation.htm), potential attorney or accountant fees, or the cost of using an incorporation service to assist you with completion and filing of the paperwork. There are also ongoing fees for maintaining a corporation.

**2. Double Taxation**

Some types of corporations such as a C Corporation, have the potential to result in "double taxation." Double taxation occurs when a company is taxed once on profits, and again on the dividends paid to shareholders.

**3. Loss of Personal "Ownership"**

If a corporation is a [stock corporation](http://biztaxlaw.about.com/od/glossarys/g/stockcorp.htm), one person doesn't retain complete control of the entity. The corporation is governed by a board of directors who are elected by shareholders.

**4. Required Structure**

When you form a corporation, you are required to follow all of the rules outlined by the state in which you filed. This includes the management of the corporation, operational requirements and the corporation's accounting practices.

**5. Ongoing Paperwork**

Most corporations are required to file annual reports on the financial status of the company. Ongoing paperwork also includes tax returns, accounting records, meeting minutes and any required licenses and permits for conducting business.

**6. Difficulty Dissolving**

While perpetual existence is a benefit of incorporating, it can also be a disadvantage because it can require significant time and money to complete the necessary procedures for dissolution.

By carefully measuring the advantages and disadvantages of forming a corporation, and consulting with an accountant, attorney and/or other financial professional, you can decide if incorporation is right for your small business.