

Your Guide to Proper Entity Structure



SRG

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Entity Structure Cheat Sheet

As you expand your business operations as a financial advisor or agent, you can quickly outgrow your existing organizational structure and feel the need to explore an alternative. To select the structure that best suits your needs, it is important for you to understand the pros and cons of each entity type.

Entity Type	Main Advantages	Main Disadvantages
Sole Proprietorship	<ul style="list-style-type: none"> + Easy and inexpensive to form + Simple to operate + Few administrative burdens + Owner may freely mix business and personal assets 	<ul style="list-style-type: none"> - Unlimited liability of owner - No continuity - All net income subject to self-employment tax - Limited sources of capital
General Partnership	<ul style="list-style-type: none"> + Easy and inexpensive to form + Less administrative burdens than corporations + More sources of capital and more management resources than sole proprietorship + Limited partners have limited liability and pay no self-employment tax 	<ul style="list-style-type: none"> - Unlimited liability of general partners - No easy transfer of ownership interest - All net income of general partners is subject to self-employment tax
Limited Liability Company	<ul style="list-style-type: none"> + Pass-through taxation or corporate tax treatment + Limited liability of owners + Perpetual life + Easy transfer of ownership interest + No restrictions on ownership classes + Profit/loss distributions do not have to be based on percentage interest 	<ul style="list-style-type: none"> - Some administrative burdens and costs - Regulatory requirements vary from state to state - Net income of active members is subject to self-employment tax
S Corporation	<ul style="list-style-type: none"> + Limited liability of owners + Pass-through taxation + Perpetual life + Possibility of different shareholder rights + Easy to raise capital + Easy transfer of ownership interest + Distributions are exempt from self-employment taxes (assuming adequate compensation to employee-shareholders) 	<ul style="list-style-type: none"> - Administrative burdens and costs - More difficult to form and dissolve - Limits on type and number of shareholders - Restrictions on stock classes (common vs. preferred) - Profit/loss distributions are determined by percentage interest

Entity Best Practices Checklist

In addition to choosing the correct entity type, use the following checklist to examine your relationship with your entity and assess your potential risks of an unfavorable IRS audit:

- Implement one of the following business structures:
 - (A) Advisor Services Agreement
 - OR
 - (B) Assignment Arrangement
- Do not use funds personally (e.g. corporate loans for personal benefit).
- Ensure that your business exists as a separate legal entity (e.g. hold annual board meetings and document your business actions). If possible, have outside parties on the board.
- Involve a team of third-party experts (SRG as industry expert, local attorney & CPA) to assist in the completion of contracts, annual salary reviews, and notarize all documents.
- Consult with broker dealer/custodian/insurance company regarding contracts with Company.

How SRG Can Help:

Entity Support Services

Succession Resource Group (SRG) helps advisors navigate the nuances and challenges related to creating and using a more formal ownership structure (e.g., LLC or corporation) in the financial services industry, which serves as the foundation for growth, providing numerous benefits, including:

- Ability to share/sell incremental equity and develop phantom equity plans
- Reduced personal liability
- Greater continuity
- Potential tax savings
- Formalized ownership structure

Learn More:

<https://successionresource.com/entity-formation/>

About Succession Resource Group

Ranked as one of the top 100 fastest growing private companies in Oregon by Portland Business Journal, Succession Resource Group, Inc. (SRG) is a boutique succession consulting firm specialized in helping financial professionals value, protect, merge/acquire, and develop exit strategies for their business.

With decades of combined industry experience, SRG possesses a unique combination of skills, resources, and expertise to help advisors understand the value of their business, develop strategies to improve that value, protect it with comprehensive contingency and succession plans, and grow through acquisition.

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