

## ASK A LAWYER

# Incorporating protects your personal assets

### **Q. I am starting a business. Do I need to incorporate?**

The main advantage of incorporating your business is liability protection, whether forming as a corporation, a limited liability company or a limited partnership.

Generally, stockholders in a corporation, members of a limited liability company, and limited partners in a limited partnership are not exposed to personal liability in the event something goes wrong in the corporate entity.

What this means is that a business owner's personal assets are not at risk to creditors of the business entity. This, in and of itself, is a persuasive reason to form a cor-

porate entity for your business.

Typically, there are not tax disincentives to operating your business as a corporate entity. For example, New Jersey law now permits a person to form a single-member limited liability company and operate his or her business with liability protection.

However, for tax purposes, the single-member limited liability company is disregarded and the profits and losses are simply reported on the taxpayer's individual tax return. For partnerships and multiple-member limited liability companies, while these entities are required to file tax returns, there is no entity-level tax,

which means again the profits and losses flow to the entity's owners. For corporations, stockholders can elect to have them be "S" corporations, which again for tax purposes means there will be no corporate-level tax and taxes will flow through to its shareholders.

It is a relatively simple process to incorporate your business. You simply need to file a certificate with the state of New Jersey stating the entity's name and address. The entity's name must be a unique name, and not used by any other New Jersey corporate entity. The entity then will file an application with the Internal Rev-

enue Service to obtain a tax identification number. Usually within a few days, this process can be accomplished.

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