

# Chapter 1: Getting Legal with the State and the Feds

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## In This Chapter

- ✓ Filing a fictitious name statement (for real)
- ✓ Getting a business license and other regulatory details
- ✓ Choosing a legal business format

**I**f you've played around on eBay, had some fun, and made a few dollars, good for you — enjoy yourself! Once you start making serious money, however, your business is no longer a hobby. It's time to consider some issues such as business structure, tax planning, and licenses.

When you're concentrating on fulfilling multiple orders and keeping your customers happy, the last thing you need is a G-man breathing down your neck. Worst case scenario: How about getting audited in December when you haven't been keeping good records all year? I know this sounds like stripping the fun out of doing business on eBay, but taking a bit of time and effort now can save you a ton of trouble later on (and will save you money in penalties).

## Giving Your Business an Official Name

In most states in the U.S., you can find funny liner ads in the classified section of the local newspaper. They're called *fictitious name statements*. No, the statements aren't fictitious, but in effect, the names are — and as such, they need to be registered with your state before you can open a bank account in a business's name. They let the state know who owns and operates a business. In California, you must file a fictitious name statement within 40 days of the commencement of your business. (Other state laws vary, so check the Web sites listed later in this chapter for more information on your state's requirements.) Your statement must also include a physical address where the business is operated — not a post-office-box address.



Before you assume that registering a name isn't required in your state, check with your state's business code. (Links to all 50 states are presented later in the chapter.) Some states, such as Indiana, require that you register the assumed name of your business with the Secretary of State.

## Don't waste your money!

All kinds of expensive services on the Internet are more than willing to handle the work for you for a fat fee. Don't spend too much of your money if you don't have to. If newspaper publication is required, look in the phone book for a small community newspaper (if they still exist in your part of the world) and call them to see whether they handle this type of legal ad. Most small newspapers are 90-percent supported by the money they make on filing legal ads. They're the experts on this type of filing. Plus,

you get to help out another small business in your community. Every 5 years, it's a good thing to file your company's DBA (Doing Business As) with the nice gray-haired lady at the local newspaper office.

If there's no small-time newspaper near where you live, go to my Web site ([www.coolerbaytools.com](http://www.coolerbaytools.com)) for a discount for the LegalZoom Web site ([www.legalzoom.com](http://www.legalzoom.com)). They will handle your DBA filing professionally and quickly (and you don't have to drive around).

In the states requiring publication, your fictitious name statement must be published in an adjudicated (officially approved) newspaper for a certain amount of time. Ostensibly, this is to let the community know that a business is starting and who owns it. The newspaper supplies you with a proof of publication, which you keep in your files as a record of your filing. You generally have to renew the statement after a prescribed number of years.

After you have your officially stamped proof of publication, you can bring that to the bank and open an account in your business name, which is an important step in separating your personal living expenses from the business.

## *Taking Care of Regulatory Details*

Let me give you some important advice to make your life easier in the long run: Don't ignore city, county, state, and federal regulatory details. Doing so may seem to make life easier at the get-go, but if your business is successful, one day your casual attitude will catch up with you. The usual attitude of government is that "Ignorance of the law is no excuse." You must comply with all the rules and regulations that are set up for your protection and benefit.

### ***Business license or city tax certificate***

Business licenses are the official-looking pieces of paper you see behind the register at brick-and-mortar businesses. Every business must have one, and depending on your local laws, you may have to have a *city license* or a *city tax registration certificate*. Yes, even if you're running a business out of your home and have no one coming to do business at your home, you may still need this. If you don't have one, the authorities may charge you a bunch of penalties if they ever find out. Avoiding this step isn't worth that risk.



To save you hanging on the phone, listening to elevator music, and being transferred and disconnected ad nauseam, I supply you with the direct links to apply for your licenses in Table 1-1. These URLs are accurate at the time of this writing, but as everybody knows, URLs change frequently. Check the following for updates:

[www.sba.gov/hotlist/license.html](http://www.sba.gov/hotlist/license.html)

<b>Table 1-1 Web Sites for Business License Information</b>	
<i>State</i>	<i>Link</i>
Alabama	<a href="http://www.ador.state.al.us/licenses/MunBusLic.htm">www.ador.state.al.us/licenses/MunBusLic.htm</a>
Alaska	<a href="http://www.dced.state.ak.us/occ/home.htm">www.dced.state.ak.us/occ/home.htm</a>
Arizona	<a href="http://www.revenue.state.az.us/609/licensingguide.htm">http://www.revenue.state.az.us/609/licensingguide.htm</a>
Arkansas	<a href="http://asbdc.ualr.edu/business-information/1006-business-licenses-taxes-permits.asp">asbdc.ualr.edu/business-information/1006-business-licenses-taxes-permits.asp</a>
California	<a href="http://www.calgold.ca.gov/">www.calgold.ca.gov/</a>
Colorado	<a href="http://www.sos.state.co.us/pubs/business/main.htm">http://www.sos.state.co.us/pubs/business/main.htm</a>
Connecticut	<a href="http://www.ct-clic.com/Content/Smart_Start_for_Business.asp">www.ct-clic.com/Content/Smart_Start_for_Business.asp</a>
Delaware	<a href="https://onestop.delaware.gov/osbrlpublic/Home.jsp">https://onestop.delaware.gov/osbrlpublic/Home.jsp</a>
District of Columbia	<a href="http://mblr.dc.gov/main.shtm">http://mblr.dc.gov/main.shtm</a>
Florida	<a href="http://www.myflorida.com/dbpr/">www.myflorida.com/dbpr/</a>
Georgia	<a href="http://www.sos.state.ga.us/firststop/">www.sos.state.ga.us/firststop/</a>
Hawaii	<a href="http://hawaii.gov/dcca/areas/breg">hawaii.gov/dcca/areas/breg</a>
Idaho	<a href="http://commerce.idaho.gov/business/index.aspx">http://commerce.idaho.gov/business/index.aspx</a>
Illinois	<a href="http://business.illinois.gov/step_by_step_guides.cfm">business.illinois.gov/step_by_step_guides.cfm</a>
Indiana	<a href="http://www.in.gov/business_guide.htm">www.in.gov/business_guide.htm</a>
Iowa	<a href="http://www.iowalifechanging.com/business/blic.html">www.iowalifechanging.com/business/blic.html</a>
Kansas	<a href="http://www.accesskansas.org/businesscenter/index.html?link=start">www.accesskansas.org/businesscenter/index.html?link=start</a>

(continued)

**Table 1-1 (continued)**

<i>State</i>	<i>Link</i>
Kentucky	<a href="http://sos.ky.gov/business/">sos.ky.gov/business/</a>
Louisiana	<a href="http://GeauxBiz.com">GeauxBiz.com\</a>
Maine	<a href="http://www.maine.gov/portal/business/starting.html">www.maine.gov/portal/business/starting.html</a>
Maryland	<a href="http://www.blis.state.md.us/BusinessStartup.aspx">www.blis.state.md.us/BusinessStartup.aspx</a>
Massachusetts	<a href="http://www.dor.state.ma.us/business/doingbus.htm">www.dor.state.ma.us/business/doingbus.htm</a>
Michigan	<a href="http://www.michigan.gov/businessstartup">www.michigan.gov/businessstartup</a>
Minnesota	<a href="http://www.deed.state.mn.us/faq/business.htm">www.deed.state.mn.us/faq/business.htm</a>
Mississippi	<a href="http://www.olemiss.edu/depts/mssbdc/going_into_bus.html">www.olemiss.edu/depts/mssbdc/going_into_bus.html</a>
Missouri	<a href="http://www.missouribusiness.net/docs/license_registration_checklist.asp">www.missouribusiness.net/docs/license_registration_checklist.asp</a>
Montana	<a href="http://mt.gov/revenue/programsandservices/onestop.asp">/mt.gov/revenue/programsandservices/onestop.asp</a>
Nebraska	<a href="https://www.nebraska.gov/osbr/cgi/domestic.cgi?OSBRApplication/init/init/None">https://www.nebraska.gov/osbr/cgi/domestic.cgi?OSBRApplication/init/init/None</a>
Nevada	<a href="http://www.nv.gov/new_DoingBusiness.htm">www.nv.gov/new_DoingBusiness.htm</a>
New Hampshire	<a href="http://www.nh.gov/revenue/business/dra_licenses.htm">www.nh.gov/revenue/business/dra_licenses.htm</a>
New Jersey	<a href="http://www.state.nj.us/njbusiness/starting/">www.state.nj.us/njbusiness/starting/</a>
New Mexico	<a href="http://www.rld.state.nm.us/index.html">www.rld.state.nm.us/index.html</a>
New York	<a href="http://www.gorr.state.ny.us/Main_GORR_Pages/Business-Permit-Assistance.html">www.gorr.state.ny.us/Main_GORR_Pages/Business-Permit-Assistance.html</a>
North Carolina	<a href="http://www.nccommerce.com/en/BusinessServices/StartYourBusiness/BusinessLicensesPermits/">www.nccommerce.com/en/BusinessServices/StartYourBusiness/BusinessLicensesPermits/</a>
North Dakota	<a href="http://www.nd.gov/businessreg/license/index.html">www.nd.gov/businessreg/license/index.html</a>
Ohio	<a href="http://www.odod.state.oh.us/onestop/index.cfm">www.odod.state.oh.us/onestop/index.cfm</a>
Oklahoma	<a href="http://www.okcommerce.gov/licensing">www.okcommerce.gov/licensing</a>
Oregon	<a href="http://www.filinginoregon.com/business/starting_a_business.htm">www.filinginoregon.com/business/starting_a_business.htm</a>
Pennsylvania	<a href="http://www.paopenforbusiness.state.pa.us/paofb/site/default.asp">www.paopenforbusiness.state.pa.us/paofb/site/default.asp</a>
Rhode Island	<a href="http://www2.sec.state.ri.us/faststart/">http://www2.sec.state.ri.us/faststart/</a>

<i>State</i>	<i>Link</i>
South Carolina	<a href="http://www.scbos.com/Business+Information/License+-+Permits/Default.htm">www.scbos.com/Business+Information/License+-+Permits/Default.htm</a>
South Dakota	<a href="http://www.state.sd.us/drr2/newbusiness.htm">www.state.sd.us/drr2/newbusiness.htm</a>
Tennessee	<a href="http://www.state.tn.us/ecd/res_guide.htm">www.state.tn.us/ecd/res_guide.htm</a>
Texas	<a href="http://www.business.texasonline.com/?language=eng">www.business.texasonline.com/?language=eng</a>
Utah	<a href="http://www.utah.gov/business/starting.html">www.utah.gov/business/starting.html</a>
Vermont	<a href="http://www.thinkvermont.com/Grow/StartingaBusiness/tabid/280/Default.aspx">http://www.thinkvermont.com/Grow/StartingaBusiness/tabid/280/Default.aspx</a>
Virginia	<a href="http://virginiabos.sparkstudiosaas.com/onestop/VirtualLobby.jsp">http://virginiabos.sparkstudiosaas.com/onestop/VirtualLobby.jsp</a>
Washington	<a href="http://www.dol.wa.gov/business/">www.dol.wa.gov/business/</a>
West Virginia	<a href="http://www.business4wv.com">http://www.business4wv.com</a>
Wisconsin	<a href="http://www.wisconsin.gov/state/byb/">www.wisconsin.gov/state/byb/</a>
Wyoming	<a href="http://soswy.state.wy.us/Business/Business.aspx">http://soswy.state.wy.us/Business/Business.aspx</a>

## ***State sales tax number***

If your state has a sales tax, a *sales tax number* (the number you use when you file your sales tax statement with your state) is required before you officially sell anything. If sales tax applies, you may have to collect the appropriate sales tax for every sale that ships within the state that your business is in.

Some people also call this a *resale certificate* because when you want to purchase goods from a wholesaler within your state, you must produce this number (thereby certifying your legitimacy as a seller) so the dealer can sell you the merchandise without charging you sales tax.

To find the regulations for your state, try the following terrific site that supplies links to every state's tax board, which should have the answers to your questions:

[www.taxadmin.org/fta/link/forms.html](http://www.taxadmin.org/fta/link/forms.html)

## ***Don't withhold the withholding forms***

If you're going to be paying anyone a salary, you'll need an *employer identification number* (EIN), also known as a *Federal tax identification number*. Every business has one. It's like a Social Security Number for a business, identifying your business on all government forms: a nine-digit number assigned to all businesses for tax filing and reporting. You may also need one for your state.

If you have regular employees, you need to file *withholding forms* to collect the necessary taxes that you must send to the state and the IRS on behalf of your employees. You're also expected to deposit those tax dollars with the IRS and your state on the date required, which may vary from business to business. Many enterprises go down because the owners just can't seem to keep their fingers out of withheld taxes — which means the money isn't available to turn in when the taxes are due. (This is another reason you should have a separate bank account for your business.)

No need to dawdle. Why not get the number while you have the time:

- ◆ There's no charge to get your employer ID number (EIN).
- ◆ An employer ID number can be assigned by filing IRS form SS-4. Go to the IRS Web site to apply online:

[www.irs.gov/businesses/small/article/0,,id=102767,00.html](http://www.irs.gov/businesses/small/article/0,,id=102767,00.html)

Or if you'd rather mail in the form, the details and downloadable form are available as a PDF file.

- ◆ State employer ID numbers for taxes may depend on your state's requirements. Visit the following for an overview of the requirements for every state in the country:

[www.taxadmin.org/fta/forms.ssi](http://www.taxadmin.org/fta/forms.ssi)

## *Selecting a Business Format*

After you've fulfilled all the regulatory details, you need to formally decide how you want to run your company. You need to set up a legal format and you need to make a merchandise plan. (For more on merchandise planning, visit Book IV, Chapter 2.)

When you have a business, any type of business, it has to have a legal format for licensing and tax purposes. Businesses come in several forms, from a sole proprietorship all the way to a corporation. A "corporation" designation isn't as scary as it sounds. Yes, Microsoft, IBM, and eBay are corporations, but so too are many individually run businesses.

Each form of business has its pluses and minuses — and costs. I go over some of the fees involved in incorporating later in this chapter. For now, I detail the most common types of businesses, which I encourage you to weigh carefully.



I'm not a lawyer, so be sure to consult with a professional in the legal and financial fields to get the latest legal and tax ramifications of the various business formats.

### ***Sole proprietorship***

If you're running your business by yourself part-time or full-time, your business is a *sole proprietorship*. Yep, doesn't that sound official? A sole proprietorship is the simplest form of business; you don't need a lawyer to set it up. Nothing is easier or cheaper. Most people use this form of business when they're starting out. Many people often graduate to a more formal type of business as things get bigger.



If a husband and wife file a joint tax return, they *can* run a business as a sole proprietorship (but only one of you can be the proprietor). However, if both you and your spouse work equally in the business, then running it as a partnership — with a written partnership agreement — is a much better idea. (See the next section, “Partnership,” for more information.) A partnership protects you in case of your partner's death. In a sole proprietorship, the business ends with the death of the proprietor. If the business has been a sole proprietorship in your late spouse's name, you may be left out in the cold.

Being in business adds a few expenses, but many things that you spend money on now (relating to your business) can be deducted from your state and federal taxes. A sole proprietorship *can* be run out of your personal checking account (although I don't advise it). The profits of your business are taxed directly as part of your own income tax, and the profits and expenses are reported on Schedule C of your 1040 tax package. As a sole proprietor, you're at risk for the business liabilities. All outstanding debts are yours, and you could lose personal assets if you default. Also, as your business becomes profitable, this business format forces you to pay an additional self-employment tax.

Also, you must consider the liability of the products you sell on eBay. If you sell foodstuffs, vitamins, or nutraceuticals (new-age food supplements) that make someone ill, you may be personally liable for any court-awarded damages. If someone is hurt by something you sell, you may also be personally liable as the seller of the product.



In a sole proprietorship, as with any form of home-based business, you may be able to get an insurance rider to your homeowner's insurance policy to cover you against some liabilities. Check with your insurance agent.

### ***Partnership***

When two or more people are involved in a business, it can be a *partnership*. A general partnership can be formed by an oral agreement. Each person in the partnership contributes capital or services and both share in the partnership's profits and losses. The income of a partnership is taxed to both partners, based on the percentage of the business that they own or upon the terms of a written agreement. Any losses are also split. The partnership must file its own tax return (Form 1065) reporting the business financials to the IRS.

You'd better be sure that you can have a good working relationship with your partner: This type of business relationship has broken up many a friendship. Writing up a formal agreement when forming your eBay business partnership is an excellent idea. This agreement is useful in solving any disputes that may occur over time.



In your agreement, be sure to outline things such as

- ◆ How to divide the profits and losses
- ◆ Compensation to each partner
- ◆ Duties and responsibilities of each partner
- ◆ Restrictions of authority and spending
- ◆ How disputes should be settled
- ◆ What happens if the partnership dissolves
- ◆ What happens to the partnership in case of death or disability

One more important thing to remember: As a partner, you're jointly and severally responsible for the business liabilities and actions of the other person or people in your partnership — as well as your own. Again, this is a personal liability arrangement. You are both personally open to any lawsuits that come your way through the business.

The partnership has to file an informational return with the IRS and the state, but the profits of the partnership are taxed to the partners on their personal individual returns.

### ***LLC (Limited Liability Company)***

A *limited liability company*, or LLC, is similar to a partnership but also has many of the characteristics of a corporation. An LLC differs from a partnership mainly in that the liabilities of the company are not passed on to the members (owners). Unless you sign a personal guarantee for debt incurred, the members are responsible only to the total amount they have invested into the company. But all members *do* have liability for the company's taxes.



## Getting legal documents prepared online

You just *knew* legal services would go online eventually, didn't you? If you're thinking of setting up one of the business formats described in this chapter, you might be interested in putting things together online. Real lawyers are there to help you at [www.legalzoom.com](http://www.legalzoom.com). They handle legal document preparation for business incorporation, partnerships, and more for low prices. This online venture was developed by a group of experienced attorneys, cofounded by Robert Shapiro (yes, *that* Robert Shapiro — of O.J. fame).

They feature an amazing online law library that can answer many of your questions and help you make informed decisions. Documents are

prepared according to how you answer online questionnaires. LegalZoom checks your work, and e-mails your documents or mails them printed on quality acid-free paper for your signature.

LegalZoom handled the trademark for my name, and I couldn't believe how easy the process was. They had step-by-step instructions and FAQs to handle my silliest of questions. I got my paperwork quickly and the entire process was not only inexpensive but painless. You may want to also at least do a phone consultation with an attorney in your area, perhaps one who is a member of the local Chamber of Commerce.

You'll need to put together an operating agreement, similar to the partnership agreement. This also will help establish which members own what percentage of the company for tax purposes. Most states will require you to file Articles of Organization forms to start this type of business.

An LLC is taxed like a sole proprietorship, with the profits and losses passed on to the members' personal tax returns. An LLC may opt to pay taxes like a corporation and keep some of the profits in the company, thereby reducing the tax burden to individual members. Although members pay the LLC's taxes, the LLC must still file Form 1065 with the IRS at the end of the year. This gives the IRS extra data to be sure that the individual members properly report their income.



Some states levy additional special or minimum taxes on an LLC. Be sure to check with your state's business department.

### ***C*-corporation**

A corporation has a life of its own: its own name, its own bank account, and its own tax return. A *corporation* is a legal entity created for the sole purpose of doing business. If you're a sole proprietor and you're incorporating, one of the main problems you face is realizing that you can't just help yourself to the assets of the business. Yes, a corporation can have only one owner — but that owner is the shareholder(s). If you can't accept that you can't write yourself a check from your corporation — unless it's for a specified salary or

for the reimbursement of legitimate expenses — then you may not be cut out to face the responsibility of running your own corporation.

The state in which you run your business sets up the rules for the corporations operating within its borders. You must apply to the Secretary of State of the state in which you want to incorporate. Federal taxes for corporations presently range from 15 to 35 percent (see Table 1-2), and they're generally based on your net profits.

**Table 1-2 Federal Tax Rates for Corporations**

<i>Taxable Income (\$)</i>	<i>Tax Rate (%)</i>
0 to 50,000	15
50,001 to 75,000	25
75,001 to 100,000	34
100,001 to 335,000	39
335,001 to 10,000,000	34
10,000,001 to 15,000,000	35
15,000,001 to 18,333,333	38
18,333,334 and more	35



Employee owners of corporations can use the company to shelter income from being taxed by dividing the income between their personal and corporate tax returns. This is frequently called *income splitting*; it involves setting salaries and bonuses so that any profits left in the company at the end of its tax year will be taxed at only the 15-percent rate.

It's kind of fun to compare what you pay and how much you'd pay in taxes if you left profits in a small corporation, so check out Table 1-2 for the rates.



Considering that the individual Federal tax-rate percentages for incomes up to \$75,000 annually go as high as 30.5 percent, the trouble of keeping a corporation for your business may be a huge money-saver.

Most states also have their own taxes for corporations. In Table 1-3, you see the basic tax for C Corporations (assuming your corporation makes money after payroll and other expenses). Please check with your tax professional as many states have Franchise Taxes, Inventory taxes (and goodness knows what else) as well.

**Table 1-3 State Corporate Income Tax Rates as of January 1, 2008**

<i>State</i>	<i>Tax Rates and Brackets</i>	<i>Note This . . .</i>
Alabama	6.5%	
Alaska	1.0% > \$0	
	2.0 > 10K	
	3.0 > 20K	
	4.0 > 30K	
	5.0 > 40K	
	6.0 > 50K	
	7.0 > 60K	
	8.0 > 70K	
	9.0 > 80K	
	9.4 > 90K	
Arizona	6.968%	Minimum tax of \$50
Arkansas	1.0% > \$0	
	2.0 > 3K	
	3.0 > 6K	
	5.0 > 11K	
	6.0 > 25K	
	6.5 > 100K	
California	8.84%	Minimum tax of \$800
Colorado	4.63%	
Connecticut	7.5% or higher (income tax or tax on capital)	Minimum capital \$250
Delaware	8.7% on the first \$20 million	
District Of Columbia	9.975%	Minimum tax of \$100
Florida	5.5%	
Georgia	6%	
Hawaii	4.4% > \$0	
	5.4 > 25K	
	6.4 > 100K	

(continued)

**Table 1-3 (continued)**

<i>State</i>	<i>Tax Rates and Brackets</i>	<i>Note This . . .</i>
Idaho	7.6%	Minimum tax \$20
Illinois	7.3%	
Indiana	8.5%	
Iowa	6.0% > \$0	
	8.0 > 25K	
	10.0 > 100K	
	12.0 > 250K	
Kansas	4% > \$0	
	7.35 > 50K	
Kentucky	4.% > \$0	Plus the larger of a gross receipts tax equal to 0.095% of gross sales or 0.75% of gross profits, or a minimum tax of \$175.
	5.0 > 50K	
	6.0 > 100K	
Louisiana	4.0% > \$0	Federally Deductible
	5.0 > 25K	
	6.0 > 50K	
	7.0 > 100K	
	8.0 > 200K	
Maine	3.5% > \$0	
	7.93 > 25K	
	8.33 > 75K	
	8.93 > 250K	
Maryland	8.25%	
Massachusetts	9.50%	Minimum tax of \$456
Michigan	4.95%	
Minnesota	9.8%	
Mississippi	3.0% > \$0	
	4.0 > 5K	
	5.0 > 10K	

<i>State</i>	<i>Tax Rates and Brackets</i>	<i>Note This . . .</i>
Missouri	6.25%	
Montana	6.75%	Minimum tax of \$50
Nebraska	5.58% > \$0 7.81 > 50K	
Nevada	None	
New Hampshire	8.5% > \$50K 9.25 > 150K	
New Jersey	6.5% > \$0 7.5 > 50K 9.0 > 100K	
New Mexico	4.8% > \$0 6.4 > 500K 7.6 > 1,000,000	
New York	7.1%	
North Carolina	6.9%	
North Dakota	2.6% > \$0 4.1 > 3K 5.6 > 8K 6.4 > 20K 6.5 > 30K	
Ohio	5.1% > \$0 8.5 > 50K	
Oklahoma	6.0%	
Oregon	6.6%	Minimum tax of \$10
Pennsylvania	9.99%	
Rhode Island	9.0%	
South Carolina	5.0%	
South Dakota	None	
Tennessee	6.5%	
Texas	1.0%	
Utah	5.0%	Minimum tax of \$100

(continued)

**Table 1-3 (continued)**

<i>State</i>	<i>Tax Rates and Brackets</i>	<i>Note This . . .</i>
Vermont	6.0% > \$0	Minimum tax of \$250
	7.0 > 10K	
	8.5 > 25K	
Virginia	6.0%	
Washington	Varies	
West Virginia	8.75%	
Wisconsin	7.9%	
Wyoming	None	

To get a clearer idea of the taxes in your state, check the following: (also call your tax person).

[www.taxfoundation.org/news/show/230.html](http://www.taxfoundation.org/news/show/230.html)



Often, in small corporations, most of the profits are paid out in tax-deductible salaries and benefits. The most important benefit for a business is that any liabilities belong to the corporation. Your personal assets remain your own, because they have no part in the corporation.