

# CHOOSING THE BEST BUSINESS ENTITY TO MAKE MONEY FROM YOUR HOBBY

There are several business entities that you can choose from, and each has its advantages and disadvantages. Let's take a look at the logical options available to you.

## Sole Proprietorship

- These are typically the easiest and least expensive to set up. All profits are taxed as personal income. In many states, all you're really doing is registering a business name and linking it to your personal name.
- You can either choose to get a tax identification number (TIN) or use your social security number.
- There is no separation. The business debts are your personal debts. If the business is sued, your personal property is at stake.

## Corporations

- Corporations are more complicated, but provide personal insulation from the company's legal or financial troubles. Corporations require a board of directors, so you'll need to know some people you can trust.
- The real disadvantage of corporations is the possibility of being taxed twice. The profits can be taxed, and then your income is also be taxed. This is not true of all types of corporations. Unless your business is quite large, or you expect it to be soon, forming a corporation is usually not the best choice for a small business.

## Limited Liability Corporation or LLC

- This is probably the best option for most small business owners. The business debts and legal issues are not your own. All profits are only taxed once as personal income. It is also quite easy to set up and only costs a few hundred dollars to form.
- It is also possible in most states to form an LLC with only one person.
- LLC combines simplicity, single-taxation with personal liability protection

Keep in mind that business entity formation is really a state-level endeavor, and the particular laws in each state will apply. The good news is that you can choose just about any state in which to form a corporation or LLC!