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Adding 'Inc.' to your firm

Small-business owners gain added protection

By Jamie Herzlich | Chicago Tribune Newspapers
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If you're like many who own small businesses, you might have started out as a sole proprietorship. But as your business has grown, you may be thinking about whether it's time to incorporate.

One of the biggest advantages of incorporating is the personal liability protection it can provide, but it does require more work on your part and an investment to get started, say experts.

"It's not a lot of money and time to incorporate, but it is money and time," said Scott Shane, a professor of entrepreneurial studies at Case Western Reserve University in Cleveland and author of "The Illusions of Entrepreneurship: The Costly Myths that Entrepreneurs, Investors & Policy Makers Live By."

To be sure, some entrepreneurs don't want to deal with the extra paperwork or fees involved in incorporating their businesses, said Shane, who advises companies to consult with an accountant or attorney to see whether incorporation makes sense.

But overall, he thinks it's worth the extra effort.

For one, it can help protect your personal assets by shielding them from business-related lawsuits, explained Michael Hanley of Merl & Hanley LLP, a [Smithtown](#), N.Y., accounting firm and president of Corp-4-U, an incorporation service. A corporation is a separate legal entity from its owners, explains Hanley, who offers free incorporation services for up to 25 businesses a month.

Of course, there are circumstances under which you may not be protected, such as if you personally guarantee a corporate bank loan, which most banks require a borrower to do, and on personal claims such as harassment or intentional and fraudulent actions, explained David J. DePinto of the law firm of DePinto Nornes & Associates LLP.

Still, it's an extra layer of protection between your business activities and you personally, said DePinto.

Beyond that, corporations have longevity because they exist beyond the life of an individual owner, carry a certain credibility factor, are able to raise equity by selling shares and can potentially offer certain tax advantages, according to the Service Corps of Retired Executives, also known as SCORE, in Washington, D.C.

Specifically, payroll taxes paid by the corporation can be lower than self-employment taxes paid by a sole proprietor under certain circumstances, noted Hanley.

That was the case for Scott Comer, a licensed real estate agent for Prudential Douglas Elliman Real Estate in Smithtown, N.Y., who set up a corporation in May 2007. He markets himself under the Prudential name but, largely for tax purposes, set up a corporation called House Sparrow Home Sales Inc. All his business expenses flow through that corporation, as well as his income.

"I saved about \$10,000 in taxes this year by being incorporated," said Comer, who worked with Hanley and paid \$300 to incorporate.