

Chapter 4 Homework: Choice of Entity

Use this helpful homework game to assist your decision when it comes to the choice of entity. For each question choose yes or no, then add the designated amount of point along with the type of entity to the entity box. Calculate your score at the end to determine what type of entity best suits your Company.

Tax Questions	Yes:	No:	Entity:
Will the Company have losses in the first few tax years? (Yes = 1 point for LLC)			
Will the Company mostly have private investors? (Yes = 2 points for LLC)			
Will the Company need to raise additional funds? (Yes = 2 points for LLC)			
Does the Company need or want a 401k? (Yes = 2 points for Corporation)			
Are there any "entity" investors? (Yes = S Corp is not allowed [some exceptions])			
Are you taking on substantial "related party" debt that can't later be capitalized? (Yes = 2 points for Corporation)			

Management Questions	Yes:	No:	Entity:
Do you need a formal board of directors or do your investors demand one? (Yes = 2 points for Corporation)			
Is your management style still evolving? (Yes = 2 points for LLC)			
Are you in the "enlightened dictator" phase? (Yes = 2 points for LLC)			
Are you a 50/50 venture? (Yes = 2 points for Corporation)			
Are there any "entity" investors? (Yes = S Corp is not allowed [some exceptions])			
Do your investors have a strong preference for a corporation?			
Add up your point to calculate your score			

*Most early-stage companies will find LLCs fit their start-up needs best. There are exceptions. And tax laws change frequently. Check with your tax advisor **and** your corporate lawyer before you*

decide on the right form of entity. Sometimes it makes sense to form 2 entities to accomplish your goals. This is not a simple decision. But you can also change your course later as your needs evolve.

New Company Document Checklist

Document:	Executed By	Filed	Outside Advisor
Certificate of Formation			
Decision Matrix (See Chapter 1)			
Company/Operating Agreement (LLCS)			
ByLaws (Corp)			
Shareholder's Agreement (Corp & Addendum to Company Agreement)			
Organizational Meeting Minutes (Corp)			
FEIN from IRS			
Independent Contractor Agreement			
Form of Offer letter for Employees			
Employee Policies			
Licenses or Assignment of Rights for all SAS or Software or IP used			
Management/Employment Services Agreement			

Convertible Note Form?			
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