# Incorporations

An incorporated business (also called a corporation) is a type of business that offers many benefits over being a sole proprietor or partnership, including liability protection and additional tax deductions. Forming a corporation also allows you raise capital through sale of shares of your company.

**What is an 'Incorporation?**

Incorporation is the legal process used to form a corporate entity or company. A corporation is a separate legal entity from its owners, with its own rights and obligations. Corporations can be created in nearly all countries in the world and are usually identified as such by the use of terms such as "Inc." or "Limited" in their names.

**3 Types of Business Incorporation**

C Corporation

C-corps are the most common business entity for several reasons. They are formed as a separate legal entity that's wholly controlled by company shareholders, which protects the business owners from corporate liabilities and debt -- the reason why it's such a popular choice.

You can have an unlimited number of shareholders with a C-corp, and ownership is easily transferred if your business eventually attracts a buyer. If your goal is to grow your business and exit in a few years through divestiture, this is the best entity to choose. Drawbacks include higher cost, the need for corporate formalities such as annual director meetings, and ongoing filing requirements imposed at the state level.

S Corporation

S-corps also offer liability protection to shareholders, and shareholders enjoy certain tax breaks not offered under other business structures, such as the double taxation of corporate profits. However, shareholders must be kept to 100 or less, and each shareholder must be in agreement to the election of an S corporation. You still have to meet state filing demands and fees, and you also are required to have the often burdensome annual director and shareholder meetings.

Limited Liability Corporation

The growth in popularity of LLCs is attributable to several factors. First, there is the benefit of side-stepping double taxation on corporate profits (members report profit or loss on their individual tax returns). Second, you can skip those dreadful annual meetings, and you have much greater flexibility when structuring corporate management of the LLC. Cons include difficulty in transferring ownership and a relative lack of legal history if you ever face adjudication of business issues.

Forming a corporation also allows you raise capital through sale of shares of your company -- a crucial growth path for many ventures.

**BREAKING DOWN 'Incorporation'**

Throughout the world, corporations are the most widely used legal vehicle for operating a business. While the legal details of a corporation's formation and organization differs from jurisdiction to jurisdiction, most have certain elements in common.

**Creation and Organization of Corporations**

Incorporation involves drafting legal documents called "Articles of Incorporation" that list the primary purpose of the business, its name and its location, and the number of shares and class of stock being issued, if any. Incorporation also involves jurisdiction-specific registration information and fees.

Companies are owned by their shareholders. Small companies can have a single shareholder, while very large and often publicly traded companies can have several thousand shareholders. As a rule, the shareholders are only responsible for the payment of their own shares. As owners, the shareholders are entitled to receive the profits of the company, usually in the form of dividends. The shareholders also elect the directors of the company.

The directors of the company are responsible for the day-to-day activities of the company. They owe a duty of care to the company and must act in its best interest. They are usually elected annually. Smaller companies can have a single director, while larger ones often have a board comprised of a dozen or more directors. Except in cases of fraud or in some specific tax statutes, the directors do not have personal liability for the company's debts.

**Advantages of Incorporation**

Incorporation has many advantages for a business and its owners, including protection of the owner's assets, because the company is liable for its own debts. Other advantages include easy transfer of the business ownership to another party through the sale of shares; the possibility of tax planning for the owner through the use of a lower [tax rate](http://www.investopedia.com/terms/t/taxrate.asp) than ones for personal income; and access to financing for business activities through, among others, the sale of stock.

Incorporation effectively creates a protective bubble, often called a corporate veil, around a company's [shareholders](http://www.investopedia.com/terms/s/shareholder.asp) and directors. As such, incorporated businesses can take the risks that make growth possible without exposing the shareholders, owners and directors to personal financial liability outside of their original investments in the company.

A corporation is a legal entity that is separate and distinct from its owners. Corporations enjoy most of the rights and responsibilities that an individual possesses; that is, a corporation has the right to enter into contracts, loan and borrow money, sue and be sued, hire employees, own assets and pay taxes. It is often referred to as a "legal person."

**BREAKING DOWN 'Corporation'**

Corporations are used throughout the world to operate all kinds of businesses. While its exact legal status varies somewhat from jurisdiction to jurisdiction, the most important aspect of a corporation is [limited liability](http://www.investopedia.com/terms/l/limitedliability.asp). This means that [shareholders](http://www.investopedia.com/terms/s/shareholder.asp) have the right to participate in the profits, through [dividends](http://www.investopedia.com/terms/d/dividend.asp) and/or the appreciation of stock, but are not held personally liable for the company's debts.

Almost all well-known businesses are corporations, including Microsoft Corporation, The Coca-Cola Company and Toyota Motor Corporation. Some corporations do business under their names and also under business names, such as Alphabet Inc., which famously does business as Google.

Ltd., or Limited, is a suffix that follows the name of a company, indicating it is a private [limited company](http://www.investopedia.com/terms/l/limited_company.asp). This is an incorporation available under British, Irish and some Commonwealth countries' laws. In a limited company, shareholders' liability is limited to the capital they originally invested. If such a company becomes insolvent, the shareholders' personal assets remain protected.

**BREAKING DOWN 'Ltd. (Limited)'**

A limited company is its own entity. A private limited company has one or more members, also called shareholders or owners, who buy in through private sales. Directors are company employees who keep up with all administrative tasks and tax filings but do not need to be shareholders. The company’s finances are separate from the owners’ and are taxed separately. The company owns all profits and pays taxes on them, distributes a portion to shareholders as dividends and retains the rest as [working capital](http://www.investopedia.com/terms/w/workingcapital.asp). A director may withdraw funds only for a salary or dividend payment or loan.