

TYPES OF BUSINESSES RECOGNIZED IN VIRGINIA



by Group SBE1



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What is the organization in Virginia through which businesses are registered?

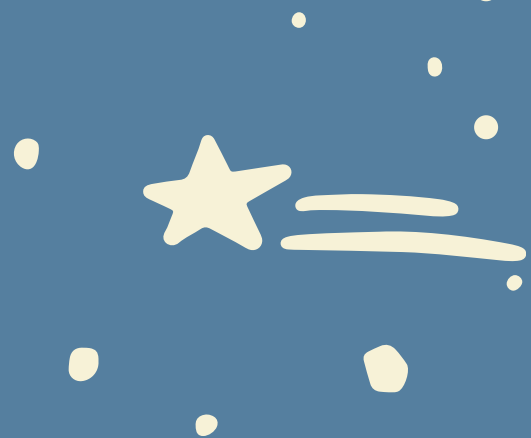
Businesses in Virginia are registered through the Virginia State Corporation Commission.

The Office of the Clerk (of the SCC) handles:

- Official business filings
- Entity registrations

On the Online Portal you can:

- Register filings
- Manage filings
- Search for business records



What are the different types of businesses that can be formed?

SOLE PROPRIETORSHIPS

Pros:

- Easiest and cheapest to start

Cons:

- Zero personal liability protection
- Harder to get business loans for

PARTNERSHIPS

Pros:

- Simple and cheap to launch
- Shared financial backing
- Has multiple owners

Cons:

- Unlimited personal liability
- Potential conflict with partners

LIMITED LIABILITY COMPANIES (LLCS)

Pros:

- Protects personal assets from business liabilities

Cons:

- Higher state filing fees
- Cannot easily issue stock

CORPORATIONS

Pros:

- Maximum personal liability protection
- Great for raising venture capital/going public

Cons:

- Face double taxation
- Need strict record-keeping, and have high administrative costs



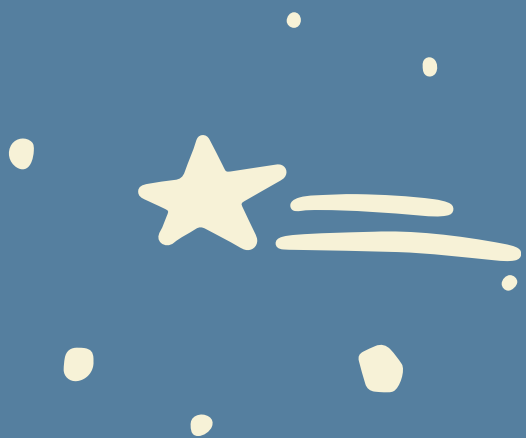
Do all business types require registration?

Business types that need registration:

- Limited Liability Company (LLC)
- Nonprofit Corporation
- Corporations

Business types that do not need registrations

- Sole proprietorships
- General partnerships



WHAT IS A PROFESSIONAL LLC?

It is a specialized business entity designed exclusively for licensed professionals to practice their trade legally. Virginia requires a seperate classification for reasons such as...

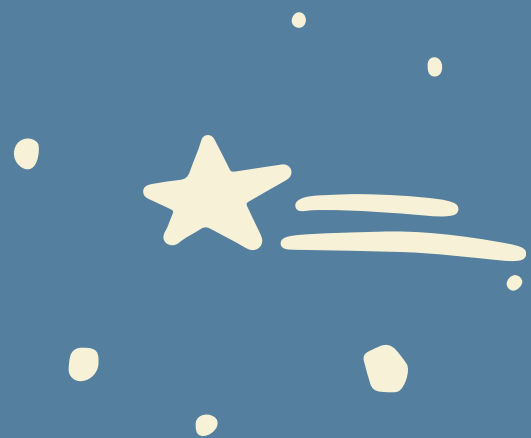
- Ownership Requirements**
- Board Oversight**
- And State Licensing Verification**

WHAT ARE THE SPECIFIC FILING FORMS AND FEES FOR COMMON ENTITIES

- For an LLC you must fill out the Articles of Organization such as...
 - LLC-1011 OR LLC-1103 and it costs \$100 for filing and \$50 annually
- For a C-Corp you need to file an SCC619 (for professional stock corporations) and it starts at \$75
- For a Non Profit you would need to fill out an SCC819 and it would cost \$75

How does a Foreign entity register to do business in Virginia?

A foreign business entity registers to do business in Virginia by Filling an application for a certificate of authority or registration with the Virginia State Corporation Commission [SCC] via its Clerks Information system [CIS] Or by mail



What's the difference between forming a new Virginia entity and registering an out-of-state entity?

Forming a Virginia entity requires different paperwork, requiring Articles of Organization for corporations or Articles of Incorporation for LLCs. The governing law is also different. For newly formed Virginia entities, the business is completely governed by Virginia state laws. For foreign entities, internal affairs like voting rights and shareholder relations are governed by your home state while following Virginia state laws for in-state business affairs. If anyone were to sue a foreign entity for anything but Virginia related misconduct, the case would follow home state laws rather than VA laws.



**FOR EACH ENTITY TYPE, WHO IS
PERSONALLY LIABLE FOR
BUSINESS DEBTS?**

It depends on the specific business entity comparison chart but the sole proprietor has unlimited personal liability and is 100% responsible for all business debts, legal claims and obligations. Although some business share debts between partners or LP.

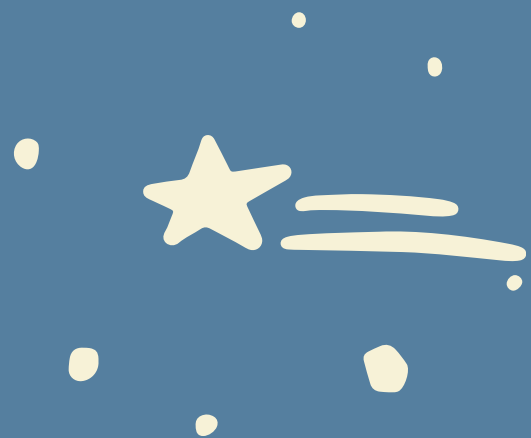
In a Limited Partnership, what is the fundamental trade-off between the General Partner and the Limited Partner regarding control and liability?

A limited partner is prohibited from participating in daily management or operational decisions. If a limited partner starts exercising control, they risk losing their liability shield and being treated as a general partner and they are shielded from personal liability beyond the initial capital they contributed to the partnership.



What is the default tax classification for a single-member LLC versus a multi-member LLC?

A single member LLC is defaulted to a disregarded entity (treated similarly to a sole proprietorship for federal income tax purposes). A multi member LLC is defaulted to partnership.



How does pass-through taxation differs from C-Corporation double taxation?

Pass-through taxation and C-corporation double taxation are primarily different in how many times business profits are taxed and at what level (entity vs. owner) the tax is applied

What is the Elective Pass-Through Entity Tax (PTET) recently made permanent in Virginia, and why might an LLC or Partnership choose to pay it?

An **Elective Pass-Through Entity Tax (PTET)** is an optional state-level tax that allows partnerships, S-corporations, and qualifying LLCs to pay state income tax directly at the business level rather than passing all of that tax liability down to individual owners. In return, the owners receive a state tax credit (or subtraction) on their personal state returns for their share of the tax paid, while the business deducts the PTET payment as a federal business expense

WHAT ONGOING ANNUAL REPORTS OR FEES DOES THE SCC REQUIRE TO KEEP AN ENTITY IN GOOD STANDING?

Jonah K

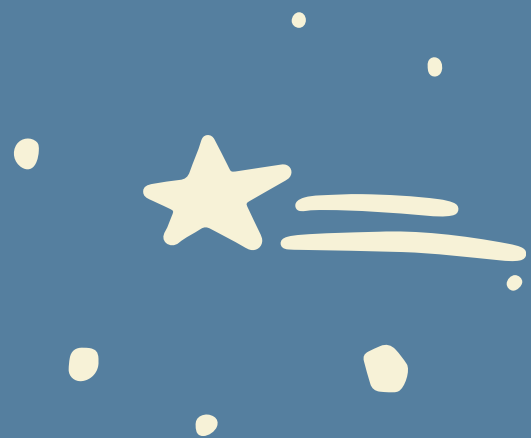
Company:	Annual Report	Registration Fee	Due Date	Late Penalty
Stock Corporations	Required every year (\$0 filing fee).	Scaled based on the number of authorized shares.	The last day of the company's incorporation month.	10% or a minimum of \$10. Non-compliance for 4 months results in revocation or termination.
Non-Profits	Required every year (\$0 filing fee).	Flat \$25 fee.	The last day of the corporation's incorporation month.	\$10. Non-compliance for 4 months results in automatic termination.
Limited Liability Companies	Not required (no separate	Flat \$50 fee	The last day of the month the LLC was formed.	\$25. Non-compliance for 3 months results in cancellation.
Limited Partnership	Not required.	Flat \$50 fee.	Annually on or before September 30.	\$25. Canceled if unpaid by December 31.
Limited Liability Partnerships	File an annual continuation report	\$50 fee.	Annually by July 1.	Canceled if unpaid by November 1.

IF A STARTUP PLANS TO SEEK VENTURE CAPITAL AND EVENTUALLY GO PUBLIC, WHICH ENTITY IS LIKELY THE BEST FIT, AND WHY?

- VC Preference: Venture capitalists prefer or require investing in C Corporations, due to their well-established and predictable corporate laws.
- Institutional Readiness: It easily accommodates multiple classes of stock, which is essential for venture backing and an eventual IPO.
- Equity Incentives: It simplifies the process of granting stock options to attract top-tier talent
- Favorable Tax Structures: It qualifies for the Qualified Small Business Stock (QSBS) tax exemption under Section 1202; eligible investors and founders can potentially exclude up to 100% of capital gains upon sale.

If a solo consultant wants minimal paperwork and maximum flexibility, which entity makes the most sense?

- LLC is the best choice
 - Moderate amount of paperwork
 - More compared to sole proprietorship
 - Less compared to C-corps or S-corps
 - It is the most flexible type
 - Tax structure and management flexibility



Under what circumstances might a business choose to convert from an LLC to a Corporation later?

- To receive more outside funding
 - Venture Capital
 - Institutional Investment
 - Most common reason
- Accomodating Equity Compensation for employees
- Preparing a sale to investors





THANK YOU

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