

15.1: Introduction

At its most fundamental level, a business exists to make a profit for its owners. Some businesses make things in factories (manufacturers), other businesses sell things that other businesses make (retailers), and still other businesses exist to help both the makers and sellers make and sell better (business consultants). Some businesses don't make things at all, and instead profit by selling their services or by lending money.

With this diversity, it's not surprising that there is no "one size fits all" approach to choosing a business organization. When choosing what form of entity is best, several factors are important to consider:

1. How much it costs to create the entity and how hard it is to create.
2. How easy it is for the business to continue if the founder dies or retires.
3. How difficult it is to raise money to grow or expand the business.
4. What type of managerial control they wish to keep on the business, and whether they are willing to cede control to outsiders.
5. If expanding ownership to members of the public is desired.
6. How to minimize the taxes paid on earnings and income.
7. How to protect personal assets from claims, a feature known as limited liability.

Depending on the type of business and its goals, different business entities may be appropriate.

Counselor's Corner Selection of business entities is often the first step when going into business. Many entrepreneurs and small businesses do not spend enough time thinking about the legal and tax consequences of the entity they choose. Ironically, an important discussion to have at the beginning is an exit strategy. What happens if one of the business owners becomes ill, dies, or wants to leave the business? What if the economic situation changes and the business no longer is profitable? Discussing exit strategies up front helps people make the best decisions when crises happen. Don't avoid hard conversations up front. It may be uncomfortable but will save a lot of problems down the road. ~Allison W., attorney

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