

# CHOOSING A BUSINESS ENTITY

## A GUIDE FOR INDEPENDENT LANGUAGE SERVICE PROVIDERS



**LUNA** | Language  
Services

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## Overview

As an independent interpreter or translator, you choose the number of hours to work, from whom you accept an assignment, and the rate at which you bill for services. Whether you think of yourself in such terms, you are the boss of your own small business.

As with all business owners, independent language service providers face certain risks. For example, the costs of your equipment (a laptop or mobile phone) and the investments you make in education or professional development may exceed the income you generate, resulting in financial loss. Alternatively, you could be sued for malpractice by not meeting the professional standard of care in performing your service.

Selecting the proper form of business entity can help minimize these risks. This guide is designed to help entrepreneurs like you understand the most common types of business entities, their general characteristics, and key factors to consider in making such a decision.

While this guide provides general information on the types of business entities available, there is no “one-size fits all.” When choosing an entity, it is important to seek the advice of professionals—such as attorneys, accountants, or other qualified professionals—who can guide you based on the unique circumstances of your business.

**There is no “one-size fits all” or “best choice” of business entity. Always consult a professional—such as a lawyer or accountant—in making your decision.**

## Key Considerations

Before examining the the various business entities available, there are some key factors to consider to help guide your decision. Liability and taxation, discussed below, are two of the most important factors. However, other aspects—including formation, ownership interests and transferability, management, and continuity of existence—are also important in deciding on the proper form of entity for your business.



**TIP:** For more information on the types of business entities available and the processes required for setting them up, consult the resources listed at the bottom of this guide.

## Limited Liability vs. Personal Liability

Personal liability for the company's debts and obligations should be a primary concern in making any choice-of-entity decision. Certain business entities provide **limited liability** protection. This means that a business owner is not personally responsible for the debts and obligations of the business. If the business is sued, only the assets of the business are at risk, not the owners' personal assets, such as their houses or cars. Limited liability protection is generally only available for corporations and limited liability companies (LLCs).

## “Flow-Through” Taxation vs. Double Taxation

Taxation is another highly-important consideration. Certain business entities—such as sole proprietorships, partnerships, and LLCs—allow for **flow-through taxation**. Under this method of taxation, the business owner pays taxes on all profits on their individual tax returns (the business income “flows through” the business to the owner's personal tax returns). Corporations, by contrast, are subject to **double taxation**—once at the entity level and again at the individual level when the income is distributed. This tax structure may also apply to other businesses that elect similar tax treatment.

## Types of Business Entities

### Sole Proprietorships

The most simple form of business entity is the sole proprietorship. There is typically no formal procedure to create a sole proprietorship—no forms to fill out, no agreements to sign, and, with the exceptions noted below, no documents to file with the state.

As a sole proprietor, you do not file a separate tax return for your business. Rather, you

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report all income and expenses from your business on your individual taxpayer federal form 1040, Schedule C. Certain business-related expenses qualify as personal



deductions. Your business expenses (the cost of carrying on a trade or business) are usually deductible if the business operates to make a profit.

With few formal accounting requirements, your personal and business assets are treated virtually the same. The downside of this, despite its flexibility, is that you can be personally liable for the debts and obligations of the business. That means that personal assets, like your car or house, can be treated, for debt and liability purposes, as business assets.

Some sole proprietors must register with their State Department of Revenue. You will need to register your sole proprietorship if, for example, you have employees (for tax withholding) or you sell products or tangible items (for sales tax).

## General Partnerships

A general partnership is a business entity formed when two or more persons join together to co-own a business for profit. No formal agreement is necessary. As with a sole proprietorship, each partner in a general partnership has unlimited personal liability for their business obligations.

For tax purposes, the profits and losses of a general partnership “pass-through” to the partners and income is subject to the self-employment tax. However, the general partnership must file an informational return (Federal Form 1065) with the Internal Revenue Service. The dissolution of a general partnership generally results from the death, bankruptcy, or withdrawal of a partner.



## Corporations

A corporation (sometimes referred to as a C corporation) is an independent legal entity owned by “shareholders.” These business entities are formed by filing articles of incorporation with a state’s Secretary of State. Because a corporation exists as a

separate legal entity, its shareholders enjoy “**limited liability**.” This means that, if the corporation is sued, only the assets of the business are at risk, not the owners’ personal assets (as with sole proprietorships or general partnerships). However, the corporation’s owners must comply with certain corporate formalities—e.g., keeping up with paperwork requirements and adequately funding the business—to maintain this protective shield against personal liability.



With certain exceptions, a corporation’s distinct entity status also subjects its profits to **double taxation**: once at the entity level and once to the shareholders

upon distribution of their corporate earnings. An eligible domestic corporation can avoid this double-taxation structure by electing IRS treatment as an **S corporation**, allowing profits and losses to pass through to the owners’ personal tax returns.

## Limited Liability Companies

The Limited Liability Company (LLC) is a type of business entity which combines the pass-through taxation structure of partnerships with the benefit of limited liability to its owners (known as “members”). In most states, membership in an LLC may consist of a single individual (one owner) or more (multiple owners). Creating an LLC involves filing articles of organization with a state’s Secretary of State. Members must also typically file biennial reports with the state to maintain the LLC’s existence.

Although not required by law, an LLC should conduct its business under an Operating Agreement. This formal, binding document outlines the financial and management structure of the business. It can be tailored in a way that suits the specific needs of the business owners.

## Resources

### General

Carla Mathers, *How Practicing Sign Language Interpreters Protect Against Legal Liability*, Street Leverage (Jan. 2012),

<http://www.streetleverage.com/2012/01/how-practicing-sign-language-interpreters-protect-against-legal-liability>.

Mary Geisenhoff, *It's Tax Time—Are You Ready? Tax Tips for Independent Contractors*, ATA Chronicle (Mar. 2015), [http://www.atanet.org/chronicle-online/wp-content/uploads/4403\\_15\\_geisenhoff.pdf](http://www.atanet.org/chronicle-online/wp-content/uploads/4403_15_geisenhoff.pdf).

American Translators Association, *The “Business” of Freelancing*, ATA Chronicle (Sep. 2008), [https://www.atanet.org/chronicle/feature\\_article\\_september2008.php](https://www.atanet.org/chronicle/feature_article_september2008.php).

American Translators Association, *Business Practices*, [http://www.atanet.org/business\\_practices/index.php](http://www.atanet.org/business_practices/index.php) (last visited Feb. 24, 2017).

Internal Revenue Service, *Business Structures*, <https://www.irs.gov/businesses/small-businesses-self-employed/business-structures>.

Internal Revenue Service, *Deducting Business Expenses*, <https://www.irs.gov/businesses/small-businesses-self-employed/deducting-business-expenses>.

Tammera J. Richards, *Establishing a Freelance Interpretation Business: Professional Guidance for Sign Language Interpreters* (3d. ed. 2008).

U.S. Small Business Administration, *Choosing Your Business Structure*, <https://www.sba.gov/starting-business/choose-your-business-structure>.

## For Indiana Residents

INBiz: *Your One-Stop Source for Your Business*, <https://inbiz.in.gov/BOS/Home/Index>.

Ind. Sec. of State, *An Entrepreneur's Guide to Starting a Business in Indiana*, <http://www.in.gov/sos/business/2428.htm>.

**Last Updated:** March 30, 2017.

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