



# First Children's Finance

## Business Structures – Iowa

Businesses may be structured in many ways, depending on the desires and plans of those responsible for forming the business. This document provides basic characteristics of the main business structures defined in Iowa regulations. In addition to the legal structures described below, Iowa Department of Human Services oversees registration, licensing, and regulation of child care operations.

Legal Structure	Characteristics
<p><b>Sole Proprietorship</b></p> <p>A sole proprietorship involves <u>one</u> person owning and operating a business. It is the simplest of the business structures to form.</p> <p>Iowa does not require a formal process to form a sole proprietorship.</p>	<p>The sole proprietor alone owns all assets and debts, and has <b>unlimited personal liability</b> for the business.</p> <p>The owner reports profits or losses on their personal income tax <b>Form 1040</b> and <b>Schedule C Profit or Loss from Business</b>, and <b>Schedule SE Self-Employment Tax</b> to determine tax due on net earnings and to figure your benefits under the social security program.</p>
<p><b>General Partnership</b></p> <p>A general partnership is a business owned by <u>two or more</u> people. It is also relatively simple and inexpensive to form.</p> <p>While a written agreement is not required by law, it is a good idea to have a <b>written partnership agreement</b> that is prepared or reviewed by an attorney.</p> <p>In Iowa general partnerships are governed by the Iowa Uniform Partnership Act (Chapter 486A of the Iowa Code). Business partners may file a <b>Statement of Partnership Authority</b> with the Secretary of State's office. There are no biennial reporting requirements.</p>	<p>Each partner shares in the right and responsibility to manage the business. Each partner has <b>unlimited personal liability</b> for the debts and acts of the partnership.</p> <p>A partnership does not pay federal income tax, but the partnership does file an informational return <b>Form 1065</b>.</p> <p>Each partner reports profits or losses on their personal income tax <b>Form 1040</b> and <b>Schedule E Supplemental Income and Loss</b> and <b>Schedule SE Self-Employment Tax</b> to determine tax due on net earnings and to figure your benefits under the social security program.</p>
<p><b>Limited Liability Company (LLC)</b></p> <p>A limited liability company (LLC) combines the limited liability of a corporation with the tax benefits of a partnership. An LLC is an unincorporated entity made up of one or more owners, which are referred to as members.</p> <p>These members select a Board of Directors to manage the corporation. Organizing an LLC is also complex and will usually benefit from professional advisors.</p> <p>In Iowa, LLCs are governed by the Revised Uniform Limited Liability Company Act (Chapter 489 of the Iowa Code). LLCs must file a <b>Certificate of Organization</b> and biennial reports with the Secretary of State's office.</p>	<p>Like a corporation, an LLC gives <b>limited liability protection</b> to its members (owners).</p> <p>An LLC does not pay federal income tax and does not file any forms with the IRS. Each member reports profits or losses on their personal income tax <b>Form 1040</b> and <b>Schedule C Profit or Loss from Business</b>, and <b>Schedule SE Self-Employment Tax</b> to determine tax due on net earnings and to figure your benefits under the social security program.</p> <p>For tax purposes an LLC that is owned by a single member is treated like a sole proprietor and one that is owned by two or more members is treated like a partnership.</p>

<p><b>Corporation</b></p> <p>A for-profit corporation is a separate legal entity made up of one or more owners or shareholders.</p> <p>These shareholders select a Board of Directors to manage the corporation. Incorporating is generally more complex and will usually benefit from professional advisors.</p> <p>In Iowa corporations are governed by the Iowa Business Corporation Act (Chapter 490 of the Iowa Code). Corporations must file their <b>Articles of Incorporation</b> and biennial reports with the Secretary of State's office.</p>	<p>Because it is a separate entity, the corporation is responsible for its obligations. Unless they commit fraud or other wrongdoing, owners have <b>limited personal liability</b> for the obligations of the corporation.</p> <p>A <b>C corporation</b> pays federal and state income tax. A C corporation reports its income, deductions, and taxes on <b>Form 1120</b>.</p> <p>An <b>S corporation</b> does not pay federal income tax, rather shareholders may be liable for tax on their share of the income, whether or not distributed. The corporation files <b>Form 1120S</b> and <b>Schedule K-1 Shareholder's Share of Income, Deductions, Credits, etc.</b> Individual shareholders report their share of the income and loss on their personal income tax Form 1040, using the information from Schedule K-1.</p>
<p><b>Nonprofit</b></p> <p>A nonprofit corporation is a legal entity that does not have individual owners or shareholders. Instead, the corporation is managed by a Board of Directors.</p> <p>Incorporating is generally more complex and will usually benefit from professional advisors.</p> <p>In Iowa nonprofits are governed by the Revised Iowa Nonprofit Corporation Act (Chapter 504 of the Iowa Code). Nonprofit corporations must file <b>Articles of Incorporation</b> and biennial reports with the Secretary of State's office.</p>	<p>Because it is a separate entity, the nonprofit corporation is responsible for its obligations. Unless they commit fraud or other wrongdoing, the Board Members have <b>limited personal liability</b> for the obligations of the corporation.</p> <p>For a nonprofit corporation to not pay federal income tax they must apply to the IRS for tax-exempt status. Most nonprofit child care programs qualify as a 501(c)(3), but that is not the only type of nonprofit status. A nonprofit reports income, deductions, and taxes on informational return <b>Form 990</b>. Churches are exempt from this filing.</p>
<p><b>Government</b></p> <p>A government entity does not have individual owners or shareholders. Instead, it is operated by representatives that are elected by those they represent.</p> <p>Government entities must be established by legislation.</p>	<p>Unless they commit fraud or other wrongdoing, elected government officials have <b>limited personal liability</b>.</p> <p>Government entities are funded through tax dollars, and therefore do not pay taxes or file a tax return.</p> <p>In Iowa public school districts are government entities, while private and religious schools are nonprofit.</p>

**Federal Identification Number**

If your business will have employees (regardless of business structure), one of the first things you must do is obtain an **Employer Identification Number (EIN)**. To obtain an EIN, file Form SS-4, *Application for Employer Identification Number*, on-line at [www.irs.gov](http://www.irs.gov).

**Always consult with your lawyer and accountant for specific legal and accounting questions.  
Contact First Children's Finance for assistance in choosing a structure that is the best fit for your goals.**