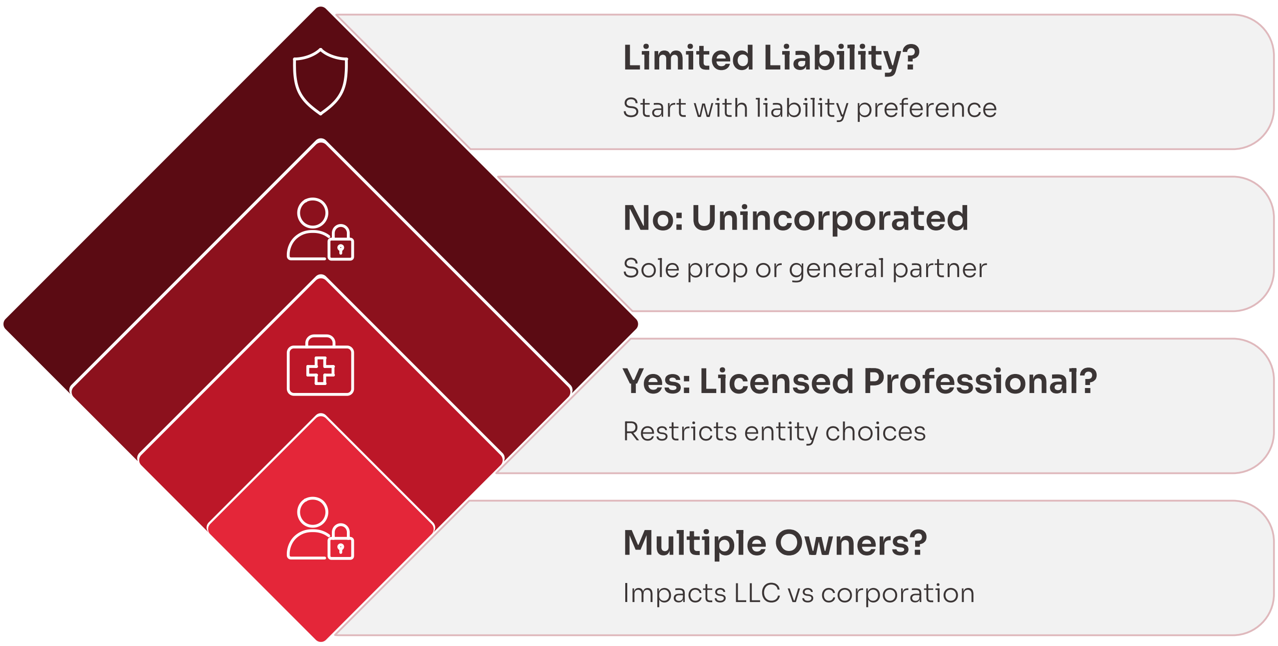
# Connecticut Business Entity Selection Guide

Choosing the right business entity is a critical decision that impacts liability protection, taxation, operational flexibility, and growth potential. This comprehensive guide walks Connecticut entrepreneurs through the decision-making process, providing structured frameworks, detailed entity comparisons, and state-specific considerations to help you make an informed choice for your business.

# Understanding the Entity Selection Decision Tree

The journey to selecting the right business entity begins with assessing your priorities. Each path in the decision tree represents a series of strategic choices based on your business goals, ownership structure, and risk tolerance.




Your decision journey typically starts with the fundamental question of liability protection. From there, considerations like professional licensing requirements, ownership structure, tax treatment preferences, and capital-raising plans further narrow your options.

This structured approach ensures you don't overlook critical factors in your decision-making process. Each branch point represents a strategic fork in the road where your specific business circumstances should guide your choice. While the flowchart provides a logical framework, remember that your unique situation may introduce nuances that require professional guidance.

# Sole Proprietorship and General Partnership

## Sole Proprietorship Overview

A sole proprietorship represents the simplest business form—you and your business are legally one and the same. This structure requires no formal filing to establish (beyond any required business licenses) and offers complete control over all business decisions.

### Advantages

- No formation paperwork or filing fees
- Complete control over decision-making
- Simple tax reporting via Schedule C on personal return
- No separate business tax returns

### Disadvantages

- **No liability protection** - personal assets at risk
- Limited fundraising capabilities
- All profits subject to self-employment tax
- Business ends if owner dies or becomes incapacitated

## General Partnership Overview

A general partnership forms whenever two or more people conduct business together without creating a formal entity. Like sole proprietorships, they offer simplicity but with shared control among partners.

### Advantages

- Minimal formation requirements
- Pass-through taxation via Form 1065 and K-1s
- Flexible profit/loss allocation by agreement
- Pooled resources and shared responsibilities

### Disadvantages

- **Joint and several personal liability**
- Partners liable for each other's business actions
- Potential management conflicts without clear agreements
- Dissolution triggered by partner departure

Both entity types subject owners to unlimited personal liability for business debts and obligations. This significant risk exposure makes these entities suitable primarily for low-risk businesses or as temporary structures while establishing operations. Consider upgrading to a liability-shielding entity when your business takes on employees, signs leases, enters significant contracts, or faces customer/client liability risks.

If simplicity is your primary concern but liability protection is necessary, a single-member LLC may offer a better balance of administrative simplicity and risk management.

# Limited Liability Company (LLC)

The Limited Liability Company (LLC) has become the entity of choice for many small businesses and startups due to its unique combination of liability protection, tax flexibility, and operational adaptability. Connecticut recognizes both single-member and multi-member LLCs.

### Liability Protection

LLCs create a legal separation between business and personal assets, shielding owners' personal assets from business liabilities when properly maintained.

### Tax Flexibility

Single-member LLCs are disregarded entities by default (Schedule C reporting); multi-member LLCs use partnership taxation (Form 1065). Both can elect S-corporation or C-corporation tax treatment.

### Management Flexibility

Operating agreements can establish custom governance, profit sharing, and capital structures without the rigid requirements of corporations.

## Connecticut LLC Considerations

Connecticut LLCs must file annual reports between January 1 and March 31 each year. The state adopted the Uniform Protected Series Act in 2018, allowing series LLCs with segregated assets and liabilities. Connecticut also offers the elective Pass-Through Entity Tax (PTET) beginning in 2024, which may provide tax advantages for some businesses.

> "The LLC combines the operational flexibility of a partnership with the liability protection of a corporation, making it ideal for small businesses seeking protection without corporate formalities."

While LLCs work well for most small businesses, they may not be optimal for companies planning to seek venture capital, issue stock options, or go public. For these scenarios, C-corporations (often Delaware C-corps) typically provide a more suitable structure.

# Professional Service Entities (PLLC and PC)

Licensed professionals in Connecticut must use specialized entity structures that accommodate profession-specific regulatory requirements while providing business liability protection. These entities include Professional Limited Liability Companies (PLLCs) and Professional Corporations (PCs).

### Attorneys

Legal professionals must follow Connecticut Bar Association guidelines for entity formation and naming conventions.

### CPAs

Accounting professionals have specific entity ownership and naming requirements under Connecticut law.

### Medical Providers

Physicians, dentists, and other healthcare providers face specific ownership restrictions and licensing board requirements.

### Architects & Engineers

Design professionals must meet professional registration requirements for their entities.

## Key Characteristics of Professional Entities

- **Ownership Restrictions:** Generally limited to licensed professionals in the same field (with some mixed-profession allowances in certain cases)
- **Naming Requirements:** Must include "Professional Limited Liability Company," "PLLC," "Professional Corporation," or "PC" in the entity name
- **Malpractice Protection Limits:** While these entities provide protection from general business liabilities, they do not shield professionals from their own malpractice
- **Tax Options:** Can elect various tax treatments, including pass-through, S-corporation (if eligible), or C-corporation

Professional entities allow licensed practitioners to gain business liability protection while meeting regulatory requirements. The choice between PLLC and PC often comes down to governance preferences and tax considerations. PLLCs offer more management flexibility, while PCs may be preferred in certain professional contexts with established corporate traditions.

When structuring a professional practice, consider whether pass-through taxation (available through either PLLC or PC electing S-corp status if eligible) aligns with your financial goals. Many professionals choose pass-through structures to avoid entity-level taxation while gaining liability protection.

# C Corporation Essentials

The C Corporation represents the traditional corporate form - a distinct legal entity with ownership divided into shares of stock. This structure offers significant advantages for businesses planning substantial growth, outside investment, or complex ownership arrangements.

### Capital Raising Advantages

- Can issue preferred stock with different rights/preferences
- Multiple classes of common stock permitted
- Familiar structure for venture capital and angel investors
- Simplifies implementation of employee stock option plans

### Corporate Tax Benefits

- 21% flat federal corporate tax rate
- Potential for Qualified Small Business Stock (QSBS) exclusion
- Dividends Received Deduction (DRD) for corporate shareholders
- R&D credits and other corporate tax incentives

### Governance Structure

- Formal board of directors with defined powers
- Established body of case law guiding corporate governance
- Clear separation between ownership and management
- Perpetual existence independent of ownership changes

### C Corporation Considerations

- Potential double taxation on distributed profits (corporate tax + shareholder dividend tax)
- More complex compliance requirements and corporate formalities
- Higher administrative costs for maintenance and tax filings
- Connecticut corporation business tax and potential surcharges

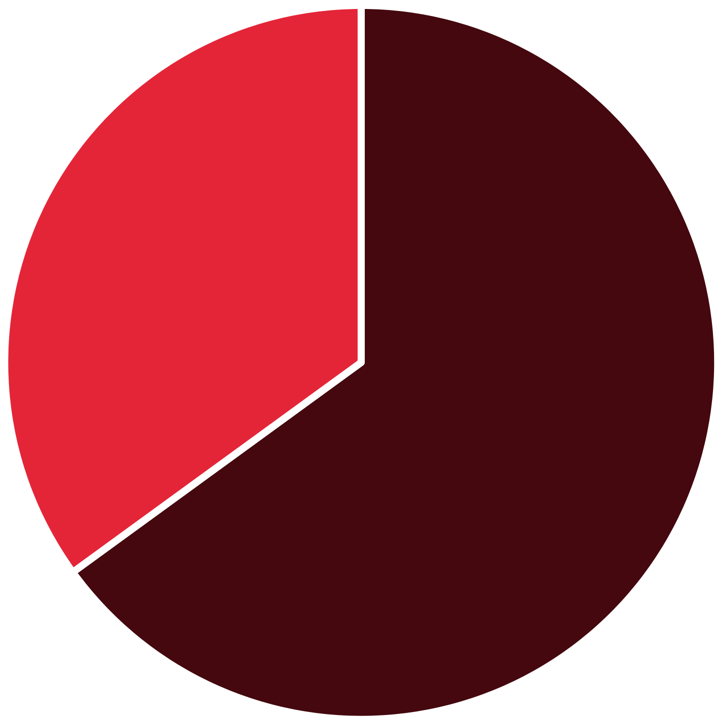
**Strategic Tip:** C Corporations work well in parent-subsidiary structures, where the parent C-Corp owns multiple LLC subsidiaries that hold different business lines or assets. This approach combines corporate benefits with liability segregation.

## Delaware vs. Connecticut Incorporation

Many growth-oriented businesses choose to form their C

# S Corporation Tax Election

An S Corporation is not a distinct entity type but rather a special tax election available to eligible corporations and LLCs. This election allows the business to maintain liability protection while enjoying pass-through taxation, potentially reducing self-employment tax exposure.




## S Corporation Eligibility Requirements

1

### Ownership Limitations

- Maximum of 100 shareholders
- Only U.S. citizens, residents, certain trusts, and estates may be shareholders
- No corporate or partnership shareholders permitted
- No nonresident alien shareholders allowed

2

### Stock Restrictions

- Only one class of stock permitted (though voting and non-voting shares within that class are allowed)
- All shareholders must have identical economic rights
- Special allocations of profit and loss not permitted
- Preferred stock not allowed

3

### Timing Requirements

- Form 2553 election due within 2 months + 15 days of the tax year start
- Late election relief may be available in certain circumstances
- All eligible shareholders must consent to the election

# Comparing Entity Features for Decision-Making

| Feature | Sole Proprietorship | General Partnership | LLC | S Corporation | C Corporation |
|---|---|---|---|---|---|
| Liability Protection | None | None | Yes | Yes | Yes |
| Formation Complexity | Minimal | Minimal | Moderate | High | High |
| Ongoing Compliance | Low | Low | Moderate | High | Highest |
| Tax Treatment | Pass-through (Schedule C) | Pass-through (Form 1065) | Flexible (default: pass-through) | Pass-through (Form 1120-S) | Entity level tax (Form 1120) |
| Self-Employment Tax | All profits | All allocated profits | Generally all profits | Only on reasonable salary | N/A (Corporate tax) |
| Ownership Flexibility | Single owner only | Multiple owners | Highly flexible | Limited | Unlimited flexibility |
| Capital Raising | Very limited | Limited | Moderate | Limited | Excellent |
| CT Annual Report | None | None | Jan 1-Mar 31 window | Anniversary of first report | Anniversary of first report |

This comparison highlights how each entity type addresses key business considerations. When evaluating your options, prioritize the features most relevant to your specific business goals and circumstances.

# Connecticut-Specific Considerations

Connecticut's unique business environment, tax structure, and compliance requirements introduce additional factors that should influence your entity selection process. Understanding these state-specific elements can help you optimize your business structure for local operations.

### Annual Reporting Schedules

Connecticut imposes different annual report filing windows by entity type: LLCs must file between January 1 and March 31 each year, while corporations file on the anniversary of their first report. Missing these deadlines can result in penalties and potential administrative dissolution.

### Pass-Through Entity Tax (PTET)

Beginning in 2024, Connecticut offers an elective PTET for pass-through entities. This election can potentially provide tax advantages by allowing entity-level payment of state income taxes that owners may claim as deductions, helping to mitigate the federal SALT deduction limitation.

### Professional Entity Rules

Connecticut maintains specific naming and ownership requirements for professional service entities. PLLCs must include "Professional Limited Liability Company" or "PLLC" in their name, and ownership is generally restricted to licensed professionals in the same field.

### Series LLC Availability

Connecticut adopted the Uniform Protected Series Act in 2018, allowing series LLCs with segregated assets and liabilities. This structure can be useful for real estate holdings or multiple business lines but requires careful planning for tax treatment and cross-state recognition.

## Corporate Tax Environment

Connecticut imposes a corporation business tax on C corporations doing business in the state. The state has periodically extended a 10% surcharge for certain taxpayers and corporate groups, which should be factored into entity selection decisions. The current tax climate makes pass-through structures advantageous for many businesses operating solely within Connecticut.

## Delaware + Connecticut Registration Approach

Many growth-oriented businesses choose to form a Delaware parent company (typically a C

# Pre-Formation Checklist and Next Steps

Once you've selected the appropriate entity type for your business, a systematic approach to formation and compliance setup will ensure a smooth start to operations. The following checklist covers essential pre-formation tasks and early compliance considerations.

### 1 Name and Intellectual Property Clearance

Before filing formation documents, conduct a thorough name search through the Connecticut Secretary of State's database. Additionally, screen potential domain names and consider a preliminary trademark search to ensure your business name won't infringe existing marks.

### 2 Prepare Formation Documents

Draft your entity's foundational documents, including Certificate/Articles of Organization or Incorporation, Operating Agreement or Bylaws, and initial resolutions. For corporations, prepare your initial capitalization table and stockholder agreements.

### 3 Obtain Employer Identification Number (EIN)

Apply for an EIN from the IRS, which serves as your business tax ID and is required for opening bank accounts, hiring employees, and filing tax returns. This can typically be done online through the IRS website with immediate issuance.

### 4 Make Tax Elections and Registrations

File any necessary tax elections, such as S corporation status (Form 2553, due within 2 months + 15 days of the tax year start). Register for state tax accounts including sales tax collection, income tax withholding, and unemployment insurance through the Connecticut Department of Revenue Services.

### 5 Set Up Compliance Calendar

Create a comprehensive compliance calendar that includes Connecticut annual report deadlines, tax filing due dates, license renewals, and other periodic requirements. Set reminders well in advance to avoid missed deadlines and penalties.

## Post-Formation Best Practices

- **Maintain Entity Separation:** Keep personal and business finances strictly separate with dedicated business accounts and clear record-keeping