

Entity Structure Reference for Construction

Sole Proprietorships

Simplest structure – one individual is the business, with no legal separation.

Pros

- Automatic setup**
 - no registration required
- Minimal administration**
 - lowest ongoing costs and paperwork
- Direct tax reporting**
 - income reported on personal return

Cons

- Unlimited liability**
 - personal assets exposed to lawsuits, debts, and claims
- No continuity**
 - business ends if owner stops operating
- Limited credibility**
 - often ineligible for licenses, bonding, or major contracts; financing options limited to personal funds or loans

Considerations

Practical use – typically a temporary or side-work structure, not designed for scaling in construction

Best only for very small-scale or solo work. Liability exposure and licensing barriers make it impractical for most contractors.

Partnerships

Shared ownership – two or more people run a business together, liability varies by type.

Pros

- Simple and inexpensive**
 - minimal filings and setup requirements
- Shared responsibility**
 - multiple owners divide duties and costs
- Pass-through taxation**
 - profits/losses reported directly by partners

Cons

- Unlimited liability for partners**
 - personal assets at risk
- Continuity issues**
 - business may dissolve if a partner exits
- Financing limitations**
 - funding typically restricted to partner resources or loans

Considerations

Variety of forms – general, limited, or limited liability partnerships each differ in liability protections

Best as a temporary testing structure for small groups. Liability exposure is unsuitable for established construction businesses.

Limited Liability Companies (LLCs)

Flexible hybrid – combines liability protection with pass-through taxation and moderate formality.

Pros

- Limited liability protection**
 - shields owners' personal assets
- Tax flexibility**
 - can elect pass-through or corporate taxation
- Widely accepted**
 - suitable for licensing, bonding, and client contracts
- Ownership options**
 - allows single or multiple members

Cons

- No stock issuance**
 - harder to attract large outside investors
- More admin than sole props**
 - requires filings, fees, and reporting
- State variation**
 - compliance requirements and liability protections differ

Considerations

- Credibility factor**
 - higher compliance burden than sole props, but often seen as a sign of professionalism in construction

Best for small to mid-sized contractors needing liability protection and flexibility. The most common “serious” structure in construction.

S-Corporations (S-Corps)

Tax designation – liability protection of a corporation with pass-through taxation for shareholders.

Pros

- Strong liability protections**
 - separates business and personal assets
- Pass-through taxation**
 - avoids corporate-level tax
- Potential tax savings**
 - owners can split compensation between salary and distributions
- Continuity**
 - entity continues if owners change

Cons

- Shareholder limits**
 - capped at 100, all must be U.S. citizens/residents
- Financing restrictions**
 - cannot issue multiple classes of stock
- Stricter compliance**
 - bylaws, meetings, annual reports required

Considerations

Tax efficiency depends on profitability – savings increase as earnings grow

Best for profitable mid-sized contractors. Strong liability and tax benefits, but less flexible for outside investors.

C-Corporations (C-Corps)

Separate legal entity – strongest liability shield, most formal, designed for growth and outside investment.

Pros

- Strongest liability protection**
 - owners and shareholders fully separated
- Unlimited growth**
 - no cap on shareholders, multiple stock classes allowed
- Best for raising capital**
 - equity financing available through stock issuance
- Credibility**
 - highest recognition with lenders, sureties, and public agencies

Cons

- Double taxation**
 - corporate income + shareholder dividends taxed
- Most complex**
 - expensive formation, bylaws, shareholder/board meetings required
- Heavy reporting requirements**
 - detailed annual filings and formal governance necessary

Considerations

Profit retention – double taxation works best when profits can be reinvested
Scale dependency – compliance burden typically justified only for larger firms

Best for large or fast-growing construction firms looking to scale aggressively, attract investors, or compete for major contracts.