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A LEGAL PROFESSIONAL ASSOCIATION



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# CHOOSING A LEGAL ENTITY IN OHIO:

## Benefits, Limitations, & Recommended Terms

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# Presenters



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# Agenda

- Quick comparison
- Entity overview
- Key statutory highlights (Ohio Rev. Code chapters)
- Recommended operating / partnership agreement terms
- Checklist for formation & next steps



# Entity Comparison

Entity	Tax Form	Taxation	Self-Employment Tax (SE Tax)
Sole Proprietorship (Business, not rental)	File Schedule C on individual return Form 1040 (Due 4/15)	Taxed at individual's tax rate	All income subject to SE tax
General Partnership	File Form 1065 (Due 3/15)	Income passes to partners via K-1 and taxed at individual's tax rate	General partners' income subject to SE tax
Limited Partnership (LP)	File Form 1065 (Due 3/15)	Income passes to partners via K-1 and taxed at individual's tax rate	Income subject to SE tax for General partners. Not for limited partners
Limited Liability Partnership (LLP)	File Form 1065 (Due 3/15)	Income passes to partners via K-1 and taxed at individual's tax rate	Income subject to SE tax for General partners. Not for limited partners
Limited Liability Company (LLC)	Single member: File Schedule C-default Multi member: File 1065-default Or elect to file 1120 or 1120S	Depends on the election	Schedule C and General Partners are subject to SE tax C/S Corp: Only member's salary is subject to SE tax.
Corporation (C/S)	S-Corp files 1120S (Due 3/15) C-Corp files 1120 (Due 4/15)	S-Corp: Income passes to partners via K-1 and taxed at individual's tax rate C-Corp: Double taxation income taxed at entity level and dividends taxed to shareholders	Only salary income subject to SE tax, not on dividends/distributions.

# Entity Comparison (cont.)

Entity	Liability	Formation (SOS)	Taxation (federal/state)	Governance
Sole Proprietorship	Owner personally liable	None (local regs)	Owner taxed on personal return	Owner-managed
General Partnership	Partners personally liable	None; filing optional (partnership stmt)	Pass-through unless entity elects	Partnership agreement governs
Limited Partnership (LP)	General partners liable; limited partners limited	File Certificate with SOS (Ch. 1782)	Pass-through	General partner manages
Limited Liability Partnership (LLP)	Partners generally shielded from partner malpractice claims	File Statement of Qualification (Ch. 1776)	Pass-through	Partners manage per agreement
Limited Liability Company (LLC)	Members protected from company liabilities	Articles of Organization with SOS (Ch. 1706) \$99	Flexible (pass-through or corp tax)	Operating Agreement controls
Corporation (C/S)	Shareholders shielded from debts	Articles of Incorporation with SOS (Ch. 1701) \$99	C corp taxed at entity level; S corp election possible	Board + officers; bylaws required

# Definitions

- EIN – Employer Identification #
- GP – General Partner
- IP – Intangible Property
- IPO – Initial Public Offering
- IRS – Internal Revenue Service
- LP – Limited Partner
- M&A – Merger & Acquisition
- OBBBA – One Big Beautiful Bill Act
- ORC – Ohio Revenue Code
- QBI – Qualified Business Income
- UPA – Uniform Partnership Act
- SE – Self-Employment
- SOS – Secretary of State
- SSTB – Specialized Service Trade or Business
- TCJA – Tax Cuts and Jobs Act

# Sole Proprietorship

- Simple to start; minimal formality – no SOS formation required
- Owner personally liable for business debts and torts
- Recommended agreement items: written bookkeeping rules, IP ownership, succession/transition plan
- When to avoid: businesses with significant liability exposure or outside investors

# Sole Proprietorship (Tax)

- File on individual level, with Schedule C or E on Form 1040: **Due 4/15**
- Income taxed at individual's tax rate
- All business income subject to self-employment tax
- Qualified Business Income deduction on income
- No payroll requirement and owners take distributions



# General Partnership (ORC Ch. 1776)

- Created by agreement (written or oral); default rules in Ohio UPA (Ch. 1776)
- Partners have joint & several liability for partnership obligations
- Key statutory note: some provisions are non-waivable—see ORC §1776.03
- Agreement should address capital contributions, profit/loss sharing, management, authority, transfers, withdrawal & dissolution

# Limited Partnership (LP) (ORC Ch. 1782)

- Two classes: general partner(s) (manage, unlimited liability) and limited partner(s) (liability limited to contribution)
- File Certificate of Limited Partnership with Ohio SOS
- Useful for passive investors (limited partners) + active managers (GPs)
- Agreement should include GP authority limits, LP withdrawal, conversion, buyouts, and distributions waterfall

# Limited Liability Partnership (LLP)

- Formed by filing Statement of Qualification with Ohio SOS (Ch. 1776)
- Provides protection for partners from some partnership liabilities (varies by claim)
- Good for professional practices and multi-partner firms
- Agreement should specify malpractice indemnity, insurance requirements, duties, admission/expulsion, and dissociation procedures

# Partnerships (Tax)

- File Form 1065: **Due 3/15**
- Share of income passes to partners via K-1 and taxed at individual's tax rate
- General partners (or Active members) pay Self-Employment tax
- Receives Qualified Business Income deduction
- No payroll allowed and partners take guaranteed payments and/or distributions



# Limited Liability Company (LLC) (ORC Ch. 1706)

- Modernized Ohio LLC Act replaced Chapter 1705 with Chapter 1706 (effective 2022)
- LLC is a separate legal entity; members enjoy limited liability. Operating agreement is primary governing document
- Flexible management (member-managed or manager-managed) and tax treatment (check-the-box choices)
- Operating agreement best practices: capital, allocations, distributions, member duties, transfer restrictions, buy-sell, deadlocks, dissolution, indemnification

# Limited Liability Company (LLC) (Tax)

- Single Member Default: SCH C & Multi Member Default: 1065
- Has the flexibility to choose S-Corp (Form 2553) or C-Corp (Form 8832)
- Allows choosing tax structure later as business grows
- SE tax and QBI deduction depending on the election

# Corporation (C or S) (ORC Ch. 1701)

- Form by filing Articles of Incorporation with SOS; corporate formalities (board, bylaws, minutes) required
- Shareholders protected from corporate liabilities; C-Corp taxed at entity level, S-Corp election available for pass-through taxation (IRS rules apply)
- Recommended corporate documents: bylaws, shareholder agreement, stock restriction/transfer provisions, director/officer indemnification

# Corporation (C-Corp Tax)

- File Form 1120: **Due 4/15**
- Double taxation; C-Corp tax at 21% and individual rates on dividends/distributions
- Only pay SE tax on salary received
- Owner is required to receive reasonable wages from C-Corp
- No Qualified Business Income deduction



# Corporation (S-Corp Tax)

- File Form 1120S and S-Corp election (Form 2553) is required: **Due 3/15**
- Income passes to partners via K-1 and tax at individual's tax rate
- Only pay SE tax on salary received
- Owner is required to receive reasonable wages from S-Corp and owners can take distributions
- Receives Qualified Business Income deduction

# Professional Entities & Nonprofit

- Professionals often must form professional associations or professional entities under Ohio statutes (check licensing boards & ORC chapters)
- Nonprofits form under Ch. 1702; tax-exempt status requires IRS filings (501(c)(3) etc.)
- Professional agreements should address licensing compliance, disciplinary actions, ownership limitations, and admission of licensed persons

# Operating / Partnership Agreement — Core Clauses

- Identification of parties, purpose, and principal place of business
- Capital contributions; capital accounts and additional contribution mechanics
- Allocation of profits and losses; distribution rules and timing
- Management structure; roles, authority, voting thresholds
- Transfer restrictions, buy-sell mechanisms, right of first refusal
- Buyout formulas, valuation methods, and payment terms
- Deadlock resolution (mediation/arbitration; buy-sell triggers)
- Dissolution/"Closing the Business" events; winding up procedures; creditor priorities
- Protections: indemnification, insurance requirements, fiduciary duties, and limitations
- Confidentiality, non-competes (where enforceable), and IP ownership
- Amendment procedures and governing law (Ohio Rev. Code reference)

# Ohio-specific statutory considerations

- Ohio LLC Act (Ch. 1706) contains default rules but parties may contract around many of them—however some statutory protections remain
- Partnerships under Ch. 1776 have non-waivable provisions—consult ORC §1776.03 for details
- Corporations under Ch. 1701 require statutory agent, articles, and observance of formalities (ORC §1701.07 etc.)
- Name availability and required words (e.g., 'LLC', 'Limited') are dictated by ORC naming rules



# Formation checklist (Practical)

- Decide entity type & check professional/license restrictions
- Select name and check SOS name availability
- Draft governing document (Operating Agreement / Partnership Agreement / Bylaws) BEFORE funding
- File formation instrument with Ohio SOS and pay fee (typically \$99)
- Obtain EIN (& elect tax status/tax year), register for state taxes, obtain licenses & local permits
- Open bank accounts, adopt resolutions, get insurance, and maintain records

# General Thoughts & Next Steps

- LLC: best default for small to mid-size businesses seeking liability protection + flexibility
- Corporation: preferred for raising institutional capital, stock-based incentives, and planned IPO
- Partnerships/LPs/LLPs: good for investment pools and professional practices—use strong agreements to allocate risk
- Consult Ohio-licensed counsel for complex allocations, professional licensing, or M&A planning

# Presenters / Q&A



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