C-corporations are a common entity choice for growing startups. In this presentation, we will go over some basic characteristics of the corporate form.

A corporation is owned by shareholders, overseen by a board of directors and operated by officers and employees. Shareholders, directors and officers all work together in the function of a corporation. In the beginning, startups are often owned, overseen and operated by the entrepreneurs themselves. Which means it is likely that the same people will be the shareholders, directors and officers.

There are several benefits that make the corporate form desirable. Corporations provide a strong liability shield for owners and is the entity type investors prefer to work with. Some investors will not work with a company unless it is already a corporation or the owners plan to merge the business into the corporate form. In addition, founders can designate a stock structure to give different classes of shareholders different rights. For example, founders can create a stock class that does not have voting rights. This gives founders the opportunity to be strategic with shareholder rights. Because stocks are personal property, they are easily transferred.

On the other hand, management is harder with the corporate form. Corporations have more formal shareholder rights and reporting requirements. Therefore, entrepreneurs who choose this business form should be prepared to keep comprehensive records of corporate actions. Corporations face double taxation. Profits earned at the company level are subject to corporate taxation and any profits distributed to shareholders is taxed on the shareholder’s individual tax return.

Corporations are creatures of statute; they only exist because the business corporation law created them. Corporate formation is strictly regulated under law. Failure to complete all steps articulated under the law will result in a failure to form a corporation. Review the checklist

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4 See Forming a Business in New York: An Overview, supra note 1, at 1.
posted in this resource and listen to the formation presentation to familiarize yourself with the corporate formation process.