

Legal Issues in Setting Up an Ayurvedic Practice (Including Legal Structures)

Maria C. DeSousa, Esq.



**Buynak & Fauver, LLP
David Brower Center
2150 Allston Way, Suite 400
Berkeley, CA 94704**

Telephone: 510.215.5530 ❖ www.BuynakLaw.com



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Ayurvedic Involvements and Passion:

- Ayurvedic Institute
- Legislative Update

Importance of Working with Attorneys:

- Buynak Law Attorneys are Business and Tax Attorneys
- Proactive, Not Reactive
- Business Attorneys Are Different

Serve as Outside General Legal Counsel to Businesses:

- Trusted Advisors
- Ongoing Relationships

Start-up to Ongoing Operations:

- California Based; National Coverage
- Understanding Professional Practices, Like Ayurvedic Practices

TYPICAL BUSINESS ENTITIES:

- Sole Proprietorship
- Partnership / Joint Venture / Limited Partnership
- Limited Liability Partnership (LLP)
- Limited Liability Company (LLC)
- Corporation (“S” or “C” Corporation; Non-profit)

NOT CONSIDERED ARE:

- *Trusts*
- *Out-of-State Entities (Delaware) or Off-shore Entities (Cayman Islands), or Other Corporations*
- *More Advanced Structures (LLC with Corporate General Partner; Master LLCs; Series LLCs)*

REASONS FOR BECOMING AN ENTITY:

- Risk and Liability
- Organization
- Outside Investment
- Tax Advantages
- Exit Strategies

PARTNERSHIPS

- General Partnership
 - Business relationship of two or more individuals or entities
 - Joint and full individual liability
 - No entity taxes — individual tax liability
 - Partnership agreement critical
 - Terminates on withdrawal or death of a partner
- Joint Venture — Single-purpose Partnership (Generally for Real Estate)
 - Business relationship of two or more individuals or entities
 - Joint and full individual liability — project
 - No entity taxes
 - Partnership agreement critical
- Limited Partnership — General and Limited Partners (Generally for Real Estate)
 - General partner(s) and various classes of limited partners
 - General partner(s) — full individual liability
 - Limited partners — no liability, except capital contribution
 - Minimum entity tax (\$800); individual tax liability
 - Partnership agreement critical

LIMITED LIABILITY COMPANIES

- LLC
 - No liability (like a corporation)
 - Flexible financing arrangement (like a partnership)
 - Multiple classes of ownership and profits
 - Informal (no minutes)
 - No federal income taxes
 - States Generally Taxed on Net Profit Like a Partnership
- Disadvantages
 - 15.3% self-employment tax on owner/employee's net income (12.4% Social Security plus 2.9% Medicare)
 - California franchise tax on gross revenues (\$800 to \$11,790 yearly) (Not Usual)

CORPORATIONS

“S” Corporation — Usual Small Business Entity

- No individual liability
- Formality in organization and operation:
 - (1) Board of directors, stock, shareholders;
 - (2) Annual meetings and minutes
- Pass-through tax (like partnership)
- One class of stock, 100 shareholders
- No Federal taxes; state tax on net profit
- Self-employment taxes on salary only
- Fringe benefits (medical) deductible to shareholders owning less than 2%
- Easy exit strategy — single tax

CORPORATIONS

“C” Corporation — Usual Start-up/Large Business Entity

- No individual liability
- Formality in organization and operation
- Taxed at corporate level:
 - (1) State (e.g., California — 8.84%)
 - (2) Federal — 15% to 38%
- Taxed at individual shareholder level
- Multiple classes of stock (ownership)
- Difficult exit strategy

Recommendations for Ayurvedic Practices:

- “S” Corporation (Preferred)
 - Better than Sole Proprietorship or Partnership
 - Liability Limited
 - Pass-Through Taxes
 - 15.3% of Profit Saved
 - Self-Employment Tax (12.4%)
 - Medicare (2.9%)
 - Need for Reasonable Salary

EXAMPLES

	Proprietaryship	LLC (Single Member)	S Corporation
Net income/profit *	\$100,000	\$100,000	\$100,000
Salary.	\$100,000	\$100,000	\$35,000
Distributed dividend.	N.A.	N.A.	\$65,000
Tax			
Social Security (12.4%)	\$12,400	\$12,400	\$4,340
Medicare (2.9%)	<u>\$2,900</u>	<u>\$2,900</u>	<u>\$1,015</u>
Total taxes	\$15,300	\$15,300	\$5,355
SAVINGS	- 0 -	- 0 -	\$9,945
Entity tax	- 0 -	- 0 -	\$1,775 **

* Includes all compensation to owners.

** \$800 + 1.5% of \$65,000



Typical Small Business Startup Steps:

- " Business Plan
- " Financials
- " Consult with Trusted Advisors; Attorney, Accountant, Strategist, Business Coach
- " Name
- " IP Reservation . Trademark, Website, Domain, FaceBook, Twitter
- " Corporation
 - . Proper Entities
 - . Proper Securities (Cheap Stock)
- " Owners, Friends, & Family Investments
 - . Bank Financing
- " Successful Business Operations
 - .
- " Outside Investments
- " Exit via Merger, Sale, IPO or Estate Planning

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