



A Quick Introduction to Virginia Business Entities

One reason why Virginia is consistently rated as one of the best states in the country to do business is because the Virginia General Assembly regularly updates its business entity statutes to keep them current, flexible, and entrepreneur-friendly. While LLCs have become the most popular choice of entity for the small business community, entrepreneurs have a wide variety of choices under Virginia law when it comes to choosing a business entity, and the purpose of this article is to provide a brief overview of those choices.

1. **Business Trusts.** A business trust is an unincorporated association whose governing instrument, sometimes referred to as a declaration of trust, provides that one or more trustees will manage property or conduct for-profit business activities on behalf of one or more beneficial owners. A business trust is a separate legal entity and, generally, its trustees and beneficial owners are not liable for the debts and obligations of the business trust.

2. **Corporations.** There are four basic types of corporations under Virginia law.

First, a **stock corporation** is a legal entity owned by one or more shareholders managed by a board of directors, consisting of one or more individuals, who elect officers to run the corporation's day-to-day business activities. Stock corporations are formed to generate a profit for the shareholders.

Second, a **nonstock corporation** is another type of corporation which may have members, but not owners. Nonstock corporations are organized for nonprofit or charitable purposes and are governed by a board of directors and one or more officers.

Third, a **benefit corporation** is a special type of stock corporation whose Articles of Incorporation specifically identify it as a benefit corporation and also commits to pursuing a general public benefit for society and/or the environment as one of its purposes. The Virginia Stock Corporation Act was amended in 2011 to create the benefit corporation as the newest choice of business entity in Virginia.

Fourth, a **professional corporation** is a special type of stock or nonstock corporation that is formed for the sole and specific purpose of rendering the professional service of pharmacists, optometrists, physical therapists, physical therapist assistants, practitioners of the healing arts, nurse practitioners, practitioners of the behavioral science professions, veterinarians, surgeons, dentists, architects, professional engineers, land surveyors, certified landscape architects, certified interior designers, public accountants, certified public accountants, attorneys, insurance consultants, audiologists, speech pathologists or clinical nurse specialists.

A major benefit of conducting activities through a corporation is that officers, directors, shareholders, and members are not personally liable for debts and obligations of the corporation (this is often referred to as limited liability protection—meaning that one's personal liability exposure is limited to what the individual actually invested in the corporation).

3. **Partnerships.** A partnership is formed when two or more people join forces to engage in any profit-seeking business activity. Over the years several different types of partnerships have developed under Virginia law.

First, a **general partnership** is the traditional type of partnership consisting of two or more persons who engage in a business activity for profit. Each partner contributes money, property, or services in return for an interest in the partnership. Each partner shares in the profits and losses of the business and has equal rights in the management business. A general partnership is an entity distinct from its partners. The primary disadvantage of general partnerships is that each partner is 100% liable for all obligations of the business; thus, general partnerships are rarely used today.

Second, a **limited partnership** is formed by two or more persons with at least one general partner (who bears unlimited liability exposure for debts and obligations of the business) and one limited partner (whose liability risk is limited to amounts he or she invested in the business). The general partner controls the management of the business, and the partners otherwise share the profits and losses of the business as mutually agreed by everyone in a written limited partnership agreement. If no such agreement exists, then the sharing is based on the value of the unreturned capital contributions made by each partner.

Third, a **registered limited liability partnership** (often referred to as a **limited liability partnership**) is a special legal status granted to a general partnership or a limited partnership that has formally registered for such status with the Virginia state corporation commission. Upon registration, the partners of a general partnership and the general partners of a limited partnership are no longer liable for the obligations of the partnership or limited partnership that arise AFTER registration.

Fourth, a **registered limited liability limited partnership** is simply another term that applies to a limited partnership that has registered for status as a registered limited liability partnership.

4. **Limited Liability Companies.** The **limited liability company** (often referred to as an LLC) is an unincorporated association of one or more owners (referred to as members) who share in the profits and losses of the business as mutually agreed in a written operating agreement (or if no such agreement exists, profits and losses are shared pro rata based upon the value of each member's contributions to the LLC). An LLC is managed either by its members (a member-managed LLC) or by one or more appointed managers (a manager-managed LLC). Many LLC operating agreements adopt corporate-style governance structures with a board of managers and officers. An LLC is a separate legal entity and its members enjoy limited liability protection from debts and obligations of the LLC. LLCs also offer flexibility in terms of choosing different classifications for income tax purposes.

A **professional limited liability company** is an LLC organized for the sole purpose of providing a professional service (e.g., the professional services listed above that can be performed by a professional corporation).

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