



Tips from Incentive Connection Travel

Travel Agency Business Structures: How to Choose - [Steph Lee](#)



Let me be brutally honest: there's no black and white answer to the question of which travel agency business structures are best. Really, the best person for you to chat with on this is your tax person/attorney. But ... while you're waiting for them to call back (cue elevator muzak), I've got some pretty handy information for you. ☺

Here's how we're gonna do this:

1. Call/email your tax person to set up a time to chat on the best business structure for your situation. Don't have one? You'll want to find one. A great tax person is invaluable to your new travel agency and can help you save moola on your taxes.
2. We'll chat on the different types of travel agency business structures available and the pros/cons of each.

3. You're going to do a Happy Dance (and I'll do the background singing... it's gonna be so great!!)

First Things First: Laying The Foundation

Before we even get our hands dirty with travel agency business structures, I want to do a primer on a couple of things:

1. DBA (Doing Business As): I'll be throwing around this acronym a lot, so I may as well tell you what it is. This really isn't a business structure but most Sole Proprietors will need to file a DBA, so it's worth going over. And with the other business structures, if you're using a business name other than your legal business name, you'll need to file a DBA.

To understand the purpose of a DBA, we have to step back a bit. Let's look at this scenario: I'm Steph Lee, owner of Host Agency Reviews. When my advertisers pay me, they don't make the check out to Steph Lee, they make it out to Host Agency Reviews. When I go to cash those checks, the bank has to somehow know Steph Lee and Host Agency Reviews are the same, right? (And government wants to know the person behind the business for obvious reasons.) DBA lets 'em know that I'm the wizard behind the curtain.

That's where our handy, dandy DBA filing comes in! **When you open your business bank account, you will likely be required to provide a DBA** to prove that you're the person the money should be going to.

The other thing to know is that the DBA is called different things in different places. In Canada, O/A (Operating As) or T/A (Trading As) are DBA's equivalents. In the US, "trade name," "assumed business name," and "fictitious business name" are all are just synonyms for DBA. *Sigh.* Bureaucracy. ☹

Note: Every state/province has different rules on DBAs so it's best to contact [your local Small Business Administration \(SBA\) office](#) or [local Canada Business Network](#) for some guidance.

2. FEIN: Federal Employee Identification Number (sometimes referred to as an "EIN") is a 9-digit number Uncle Sam uses to identify businesses in the US. For a Sole Proprietor, you don't technically need an FEIN.

3. Tax Professionals Are Your Friend: I'm serious. Go get one right now. Finding a good one is like dating. Ask your friends to set you up with a good one. You might run into some doozies, but you'll find love soon enough.

Getting to Know the Types of Travel Agency Business Structures:

Okay, let's start from the ground up. What types of legal travel agency business structures are out there for your new biz? There's a few options here in the United States and Canada:

1. Sole Proprietor
2. Partnership
3. LLC (Limited Liability Corporation)
4. Corporation

Let's start with the least expensive and simplest to implement, then we'll work our way up.

SOLE PROPRIETOR

A Sole Proprietor is the easiest business structure to set up and has a sole owner. You! It's easy to implement because you're not having to mess with the legal paper work (amen) that comes with setting up a separate business entity. You and your business are like conjoined twins. SCORE!

There's a dark side to that, of course (beyond sharing organs). Because you and your business are one and the same in the eyes of the government, that translates to two potential downers for you:

You're held responsible for any debt of your company. (Bankruptcy!!! Oh no!)

If someone names your company in a lawsuit—bad news—that means they're also suing you as a person.

Quick reminder: Requirements vary by location so check out NOLO.com's [state-by-state guide to setting up a Sole Proprietor](#) for specifics on what you need to get setup in your state. And remember, you'll probably going to need that DBA we talked about earlier.

Tax Note: As a Sole Proprietor, while you and your business are seen as one entity, you're still a business and that has certain responsibilities. Like [making sure to file estimated taxes!](#) You aren't paying income tax, but you do pay a self-employment tax (those are your estimated taxes).

PARTNERSHIP

A Partnership is essentially a Sole Proprietor setup, just with more than one owner. Weird. I know. Like a Sole Proprietor, a Partnership is easy to setup. And again, the downside is that the law views you and your business as the same entity so you are both held personally liable for any debts of your company—including if your partner makes bad choices.

When setting up a Partnership, I highly, highly encourage you to spend the money on an attorney that is well-versed in Partnerships and have them write up a Partnership Agreement. Like a marriage, taking a business partner should not be taken lightly! Your attorney can also help walk you through the process and offer some sage advice! Here's our [list of travel industry attorneys](#).

I'd also recommend talking to other entrepreneurs that have experience with Partnerships and ask them what they wished they'd known going in. If you don't know anyone involved in a Partnership, check out this [Entrepreneur article](#). Or, Google has all sorts of advice just waiting for you. ☺

Tax Note: Let's go verbatim with the IRS site here, "A Partnership must file an annual information return to report the income, deductions, gains, losses, etc., from its operations, but it does not pay income tax." The profits/loss of your company will "pass-through" to your personal tax return and you pay [those pesky estimated taxes](#) in lieu of income tax.

LIMITED LIABILITY CORPORATION

Now we're getting into the big time—we've added the word Corporation to our business structure! YAY!

Sadly, with the word Corporation, comes big(ger) price tags. The cost of an LLC filing is typically around \$100-200 but states like California charge an additional \$800 tax on top of the filing fee. But, an olive branch! You're getting personal liability protection! But, more sad news—I hate to put you on a roller coaster ride here but—you pay a price for that personal liability protection, more paperwork and higher administrative costs.

Some things you should prepare to do to setup your travel agency's LLC:

Set up a FEIN

File your Articles of Incorporation (don't be scared, it's super easy)

[Create an Operating Agreement](#) (I can't lie; this one is not as fun)

Publish a public notice (only for some states)

NOLO.com has a fabulous [state-by-state guide on how to form an LLC](#) you'll definitely want to take a gander at. It has pricing, the exact steps to file your Article of Incorporation, and tells you whether your state has any publication requirements, and loads more! I heart it.

For most of the readers of our site, if you started as a Sole Proprietor/Partnership and your agency is successful, chances are you'll be transitioning to an LLC down the road so bookmark this article!

2 Quick Tips: 1. An LLC provides personal liability protection, but not if you use your social security number or personal financial information to obtain financing or credit. 2. LLC owners do not need to be US citizens or permanent residents because an LLC travel agency business structure does not have residency requirements. This is something for folks who don't have a permanent US residency or citizenship will want to note!

Tax Note: Your business income and expenses are reported on your personal tax return. If you're a single-member LLC, you are viewed as a "disregarded" entity. This means that when tax time comes, you report the LLC's income/expenses in a Schedule C —the same schedule used by Sole Proprietors.

CORPORATION

Honestly, only .00001% of readers on the site this might find this useful. If that's you, stop reading right now and [call an attorney](#) pronto to make sure it's done correctly (ahem, not consulting me ☺). So, let's not waste our time on this!

Deciding on a Travel Agency Business Structure: Questions to Ask

A Sole Proprietor will be the best fit for most of our readers because it's a nice stepping stone into the world of entrepreneurship. That said, maybe you want to explore it more. What's the difference between the business structures? I think the easiest way to look at it is to keep in mind that structures differ by:

1. how much personal liability protection they offer you
2. how much they're going to cost
3. how much work they are to start/upkeep
4. how they're viewed by Uncle Sam

So, which business structure is right for your travel agency? Let's dig a little deeper into a few of the questions to help you narrow it down.

Ask: What do I have to lose?

No, seriously. If you've got a lot of personal assets (think: nice car, amazing stamp collection, boat, private island, etc.), you'll probably want to consider a travel agency business structure like an LLC, that protects your assets.

In other words, the law sees you (as a person) separate from your company. If your travel agency is named in a lawsuit or your agency files bankruptcy, your personal assets are not fair game.

Another thing to consider is that higher profile travel agencies are more likely to need greater legal protection since they have a bigger target on their back. An LLC structure is a good bet.

Of course, because your personal assets are protected, that means more paperwork, which means you can expect it to cost a bit more.

Ask: What is my risk level?

The way I look at it, the amount of risk you're willing to take on comes down to:

How much you're worth (in the eyes of Uncle Sam, not your mom)

How much you've invested

How much your travel agency makes/is expected to make

How much risk you're comfortable with

If you're starting up your travel agency, don't have a ton of cash, and plan on booking only friends and family (let's be honest) your risk of going bankrupt or being sued are pretty slim (unless you're a jerk). So to start, you might feel comfortable with a Sole Proprietor structure that is easier to implement, costs less, but doesn't protect your personal assets.

However, if you've got the private island and have pet dolphins, you may not want it at risk (I like to protect my private island from lawsuits, for sure!). In this case, I'll assume

you'd be more than happy to pony up the cash for a business structure that protects that cute lil' island of yours.

For a more realistic scenario—come back down to Earth, Steph—if you're opening a storefront, hiring employees or taking out a business loan, then you've got a lot on the line and probably want to go with a business structure that protects your personal assets in case things head south.

Ask: How much do I want to spend?

Starting up a travel agency can be stressful for most entrepreneurs. As you're getting set up, you're putting money out and nothing is coming back!

Filing as a Sole Proprietor can be done in most states for less than \$100. Contrast that with the cost of an LLC (\$100-\$200 in most states + higher tax preparer costs due to more forms + legal fees of getting setup + higher administrative costs).

Remember, you can always start as a Sole Proprietor and change your travel agency's business structure at a later date.