What is a corporation?

Most businesses start out as a small company, owned by one person or by a partnership. The most common type of business when there are multiple owners is a corporation. The law sees a corporation as real, live person. Like an adult, a corporation is treated as a distinct and independent individual who has rights and responsibilities. A corporation's "birth certificate" is the legal form that is filed with the Secretary of State of the state in which the corporation is created, or incorporated. It must have a legal name, just like a person.

A corporation is separate from its owners. It's responsible for its own debts. The bank can't come after the stockholders if a corporation goes bankrupt.

A corporation issues ownership share to persons who invest money in the business. These ownership shares are documented by stock certificates, which state the name of the owner and how many shares are owned. the corporation has to keep a register, or list, of how many shares everyone owns. Owners of a corporation are called stockholders because they own shares of stock issued by the corporation. One share of stock is one unit of ownership; how much one share is worth depends on the total number of shares that the business issues. the more shares a business issues, the smaller the percentage of total owners' equity each share represents.

Stock shares come in different classes of stock. Preferred stockholders are promised a certain amount of cash dividends each year. Common stockholders have the most risk. If a corporation ends up in financial trouble, it's required to pay off its liabilities first. If any money is left over, then that money goes first to the preferred stockholders. If anything is left over after that, then that money is distributed to the common stockholders.