Chart of Entity Comparison

	Sole Proprietor	Partnership	C Corporation	S Corporation	LLC
Legal Status	Same entity as owner	Separate entity from owner	Separate entity from owner	Separate entity from owner	Separate entity from owner
Separate Taxable Entity from Owner	No	No	Yes	No	Depends on tax status as sole proprietorship, partnership, or corporation
Ease of Formation	Very easy	Partnership agreement is helpful	Articles of incorporation generally required	Articles of incorporation generally required	Articles of organization generally required
Management	Owner	May be divided among partners	Board of Directors	Board of Directors	Per articles of organization
Continuity of Life	Terminates with death of owner	Cessation of business; ceasing to operate as a partnership; sale or exchange of 50% or more of the profits and capital within a 12-month period; may terminate with death of partner if agreement specifies.	Continuous	Continuous	Per articles of organization
Number of Owners	One	Unlimited	Unlimited	100	Depends on tax status as sole proprietorship, partnership, or corporation
Eligible Owners	Individuals	Unlimited	Unlimited	Some limitations	Depends on tax status as sole proprietorship, partnership, or corporation
Owner Liability	Unlimited exposure	Unlimited if general partner; limited to investment if limited partner	Limited to investment, except for personal services	Limited to investment, except for personal services	Limited to investment, except for personal services
Transferability of Ownership	Only by sale of entire business or creation of a different entity	Can sell all or a portion of partnership interest	Can sell all or a portion of stock	Can sell all or a portion of stock	Per articles of organization; commonly has some limitations
Ability to Raise Capital	Limited to owners assets and borrowing ability	Limited to owners assets and borrowing abilities; can sell interests to raise capital	Limited to owners' contributions and corporation borrowing abilities; can sell interests to raise capital	Limited to owners' contributions and corporation borrowing abilities; can sell interests to raise capital	Limited to owners' contributions and LLC's borrowing abilities; can sell interests to raise capital

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	Sole Proprietor	Partnership	C Corporation	S Corporation	LLC
Ownership Rights	Total	Divided among partners	Divided among shareholders	Divided among shareholders	Divided among members
Tax Year	Same as owner	Majority interest rules; principal partner rules; or the least aggregate deferral of income rule; exceptions may be the business purpose of §444 election	Calendar or fiscal year	Calendar year; §444 election; or business purpose demonstrated	Depends on tax status as sole proprietorship, partnership, or corporation
Allocation of Income	100% to owner	Based on partnership agreement if it has substantial economic reality	100% to corporation	Normally pro-rata based on per share/per day rule	Depends on tax status as sole proprietorship, partnership, or corporation
Tax on Formation if in Control	No gain or loss	Gain to the extent debt relief exceed basis of property transferred	No gain if debt relief does not exceed basis of property transferred and no other assets received by transferee	No gain if debt relief does not exceed basis of property transferred and no other assets received by transferee	Depends on tax status as sole proprietorship, partnership, or corporation
Tax on Formation if Not in Control	Not applicable since always in control	Gain to the extent debt relief exceeds basis of property transferred	Gain or loss as if sold property transferred for the FMV of the stock received	Gain or loss as if sold property transferred for the FMV of the stock received	Depends on tax status as sole proprietorship, partnership, or corporation
Original Basis of Stock if Not in Control	Not applicable since always in control	Basis of property transferred less debt relief	FMV of stock received	FMV of stock received	Depends on tax status as sole proprietorship, partnership, or corporation
Basis Increases from Operations	Additional purchases or cash invested	Increased by profits, additional contributions, and increase in partner's share of debts	Increased by additional investments	Increased by profits and additional contributions	Depends on tax status as sole proprietorship, partnership, or corporation
Basis Decreases from Operations	Normal basis adjustments; depreciation, amortization, etc.	Decreased by losses, deductions, distributions, and decreases in partner's share of debts	Decreased by nontaxable return of capital, if any	Decreased by losses, deductions, and distributions	Depends on tax status as sole proprietorship, partnership, or corporation
Deductibility of Losses	Normal limitations, at-risk, passive	Passed through to partners, normal limitations apply, basis, at risk, passive	Stay at corporate level, not passed through to shareholders	Passed through to shareholders, normal limitations apply, basis, at risk, passive	Depends on tax status as sole proprietorship, partnership, or corporation
Nonliquidating Distributions	100% belongs to owner	Based on partnership agreement	Pro-rata among shares	Rights must be pro-rata among shares	Pro-rata among shares if a corporation; 100% if a sole proprietorship; or based on partnership agreement if a partnership

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	Sole Proprietor	Partnership	C Corporation	S Corporation	LLC
Liquidating Distributions - Owner Level	Not a separate entity; therefore all reported as part of owner's return	Gain if cash, debt forgiveness, and marketable securities exceed basis or if partner receives a disproportionate share of unrealized receivables	Sold stock for value of cash and property received	Sold stock for value of cash and property received	Depends on tax status as sole proprietorship, partnership, or corporation
Worthlessness of Investment	Already has written off or capitalized all investments; loss sale of assets if sold	Capital loss of remainder of basis	Capital loss of remainder of basis; may qualify for §1244 ordinary loss treatment	Capital loss of remainder of basis; may qualify for §1244 ordinary loss treatment	Depends on tax status as sole proprietorship, partnership, or corporation
Charitable Contributions	Generally 50% limitation	Generally 50% limitation at partner level	Generally 10% limitation	Generally 50% limitation at shareholder level	Depends on tax status as sole proprietorship, partnership, or corporation
Alternative Minimum Tax	Applies at individual level	Applies at partner level	Applies at corporate level	Applies at shareholder level	Depends on tax status as sole proprietorship, partnership, or corporation
Death - Basis Adjustments	Basis of assets is generally FMV on the date of death	Basis of partnership interest is generally FMV on the date of death; §754 election available at partnership level	Basis of stock is generally FMV on the date of death	Basis of stock is generally FMV on the date of death	Depends on tax status as sole proprietorship, partnership, or corporation
Self-employment Tax	Yes	Yes if general partner, generally no if limited partner	No, since payment for services is in the form of wages	No, since payment for services is in the form of wages	Depends on tax status as sole proprietorship, partnership, or corporation
Salaries Paid to Family Members	Exempt from FICA for wages paid to children of owner who are under the age of 18; spouse and parents exempt from FUTA	Exempt from FICA for wages paid to children of owner who are under the age of 18 only if all partners are parents of children	No exemption for any family member	No exemption for any family member	Depends on tax status as sole proprietorship, partnership, or corporation
Accounting Method	Any method that clearly reflects income	Any applicable method; cannot use cash method of partnership is a tax shelter or has a corporation as a partner	Any applicable method; cannot use cash if it's a tax shelter, required o use inventories, or has annual gross receipts over certain limits	Any applicable method; cannot use cash if it's a tax shelter, required o use inventories, or has annual gross receipts over certain limits	Depends on tax status as sole proprietorship, partnership, or corporation
Fringe Benefits - Entity Level	Most are nondeductible; may be able to deduct 100% of qualifying health insurance premiums	Most are nondeductible; partner may be able to deduct 100% of qualifying health insurance premiums	Most are deductible	Most are nondeductible; shareholder may be able to deduct 100% of qualifying health insurance premiums	Depends on tax status as sole proprietorship, partnership, or corporation

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	Sole Proprietor	Partnership	C Corporation	S Corporation	LLC
Fringe Benefits - Owner Level	See box above	See box above	Most are tax free	Most are taxable, although may be exempt from FICA if they are nondiscriminatory	Depends on tax status as sole proprietorship, partnership, or corporation
Capital Losses	Deductible by the owner up to capital gains plus $3,000; excess is carried over until death	Passed through to partners with normal limitations applying at partner level	Allowed only to the extent of capital gains. Any net capital loss for the year is carried back three tax years as short-term capital loss then forward five years	Passed through to shareholders with normal limitations applying at shareholder level	Depends on tax status as sole proprietorship, partnership, or corporation
Income Characterization	Treatment depends on income; ordinary income, capital gains/losses, investment income, passive, etc.	Passed through to partners; character is the same as if partner received it directly	Dividend income when reported to shareholder	Passed through to shareholders, character is the same as if shareholder received it directly	Depends on tax status as sole proprietorship, partnership, or corporation
Exempt Income (i.e., municipal bond interest)	Exempt	Passed through to partners; retains character as exempt	Remains exempt for income tax, may be subject to AMT	Passed through to shareholders; retains character as exempt	Depends on tax status as sole proprietorship, partnership, or corporation
Retirement Plans	Any retirement plan, including SEPs, SIMPLEs, Keoghs, solo-401(k)	Any retirement plan, including SEPs, SIMPLEs, Keoghs, 401(k); must be established at partnership level; contributions passed through to partner and deductible by partner	Any retirement plan except Keogh; deductible at corporate level	Any retirement plan except Keogh; deductible at corporate level; must be established at S corporation level	Depends on tax status as sole proprietorship, partnership, or corporation

Note: This chart is intended for informational purposes only and may not include all aspects of tax law. When choosing a business entity, extreme care must be taken to ensure all federal and state laws are being followed.

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