

**BUSINESS ENTITY COMPARISON CHART—LEGAL CHARACTERISTICS**

	Sole Proprietorship		General Partnership		Limited Partnership		C Corporation		S Corporation		LLC	
Who owns business?	sole proprietor	sole proprietor	general partners	general and limited partners	shareholders	same as C corporation	members	no personal liability of members	same as C corporation	same as C corporation	same as C corporation	same as C corporation
Personal liability for business debts	sole proprietor personally liable	sole proprietor personally liable	general partners personally liable	only general partner(s) personally liable	no personal liability of shareholders	same as C corporation	no personal liability of members	same as C corporation	same as C corporation	same as C corporation	same as C corporation	same as C corporation
Restrictions on kind of business	may engage in any lawful business	may engage in any lawful business	may engage in any lawful business	same as general partnership	some states prohibit formation of banking, insurance and other special businesses	same as C corporation —but excessive passive income (such as from rents, royalties, interest) can jeopardize tax status	same as C corporation	same as C corporation	same as C corporation	same as C corporation	same as C corporation	same as C corporation
Restrictions on number of owners	only one sole proprietor	only one sole proprietor	minimum two general partners	minimum one general partner and one limited partner	most states allow one-person corporations; some require two or more shareholders	same as C corporation, but no more than 75 shareholders permitted	some states still require two members but are expected to allow one-person LLCs soon	same as C corporation	same as C corporation	same as C corporation	same as C corporation	same as C corporation
Who makes management decisions?	sole proprietor	sole proprietor	general partners	general partner(s) only (not limited partners)	board of directors	same as C corporation	ordinarily members; or managers if manager-managed LLC	same as C corporation	same as C corporation	same as C corporation	same as C corporation	same as C corporation
Who may legally obligate business?	sole proprietor	sole proprietor	any general partner	any general partner (not limited partners)	directors and officers	same as C corporation	ordinarily any member; or any manager if manager-managed LLC	same as C corporation	same as C corporation	same as C corporation	same as C corporation	same as C corporation
Effect on business if an owner dies or departs	dissolves automatically	dissolves automatically	dissolves automatically unless otherwise stated in partnership agreement	same as general partnership	no effect	same as C corporation	in some states, dissolves unless remaining members vote to continue business	same as C corporation	same as C corporation	same as C corporation	same as C corporation	same as C corporation

FORM YOUR OWN LIMITED LIABILITY COMPANY



	Sole Proprietorship	General Partnership	Limited Partnership	C Corporation	S Corporation	LLC
Limits on transfer of ownership interests	free transferability	consent of all general partners usually required under partnership agreement	same as general partnership	transfer of stock may be limited under securities laws or restrictions in Articles of Incorporation or Bylaws	same as C corporation —but transfers limited to persons and entities that qualify as S corporation shareholders	unanimous consent of nontransferring members may be required under state law or operating agreement
Amount of organizational paperwork and ongoing legal formalities	minimal	minimal; partnership agreement recommended	startup filing required; partnership agreement recommended	startup filing required; Bylaws recommended; annual meetings of shareholders required	same as C corporation	startup filing required; operating agreement recommended; meetings not normally required
Source of start-up funds	sole proprietor	general partners	general and limited partners	initial shareholders (in some states, cannot invest with promise to perform services or contribute cash in the future)	same as C corporation —but cannot issue different classes of stock with different financial provisions	members (may usually invest with promise to perform services or contribute cash in the future)
How business usually obtains capital, if needed	sole proprietor's contributions; working capital loans backed by personal assets of sole proprietor	capital contributions from general partners; business loans from banks backed by partnership and personal assets	investment capital from limited partners; bank loans backed by general partners' personal assets	flexible; outside investors (may offer various classes of shares); bank loans backed by shareholders' personal assets (if corporation has insufficient credit history); may go public if need substantial infusion of cash	generally same as C corporation—but can't have foreign, partnership or corporate shareholders; must limit number of shareholders to 75; classes of stock to investors except for shares without voting rights	capital contributions from members; bank loans backed by members' personal assets (if LLC has insufficient credit history)

	Sole Proprietorship	General Partnership	Limited Partnership	C Corporation	S Corporation	LLC
Ease of conversion to another business form	may change form at will; legal paperwork involved	may change to limited partnership, corporation or LLC; legal paperwork involved	may change to corporation or LLC; legal paperwork involved	may change to S corporation by filing simple tax election; change to LLC can involve tax cost and legal complexity	generally same as C corporation—may terminate S tax status to become C corporation but cannot reelect S status for five years after	may change to general or limited partnership or corporation; legal paperwork involved
Is establishment or sale of ownership interests subject to federal and state securities laws?	generally not	generally not	issuance or sale of limited partnership interests must qualify for securities laws exemptions, otherwise must register with federal and state securities laws offices	issuance or transfer of stock subject to state and federal securities laws or must qualify for securities laws exemptions	same as C corporation	probably not, if all members are active in business
Who generally finds this the best way to do business?	owner who wants legal and managerial autonomy	joint owners who are not concerned with personal liability for business debts	joint owners who want partnership tax treatment and some nonmanaging partners must be willing to assume personal liability for business debts	owners who want limited liability and ability to split income between themselves and a separately taxed business	owners who want limited liability and individual tax rates to apply to business income; must be willing to meet initial and ongoing S corporation requirements	owners who want limited liability and either pass-through or corporate taxation (see below); particularly beneficial for smaller, privately held businesses

**BUSINESS ENTITY COMPARISON CHART—TAX CHARACTERISTICS**

	Sole Proprietorship	General Partnership	Limited Partnership	C Corporation	S Corporation	LLC
How business profits are taxed	Individual tax rates of sole proprietor	Individual tax rates of general partners	Individual tax rates of general and limited partners	split up and taxed at corporate rates and individual tax rates of shareholders	individual tax rates of shareholders	individual tax rates of members, unless LLC files IRS Form 8832 and elects corporate taxation
Tax-deductible fringe benefits available to owners who work in business	sole proprietor may set up IRA or Keogh retirement plan; may deduct a portion of medical insurance premiums	General partners and other employees may set up IRA or Keogh plans; may deduct a portion of medical insurance premiums	same as general partnership	full tax-deductible fringe benefits for employee-shareholders; may fully deduct medical insurance premiums and reimburse employees' medical expenses	same as general partnership, but employee-shareholders owning 2% or more of stock are restricted from corporate fringe benefits under partnership rules	can get benefits associated with sole proprietorship, partnership or corporation, depending on tax treatment of LLC
Automatic tax status	yes	yes	yes, upon filing certificate of limited partnership with state corporate filing office	yes, upon filing Articles of Incorporation with state corporate filing office	no; must meet requirements and file tax election form with IRS (and sometimes state); revoked or terminated tax status cannot be re-elected for five years	yes, with IRS; unless LLC wishes to elect corporate tax treatment (by filing IRS Form 8832); most states treat LLC same as IRS for state income tax purposes
Are taxes due when business is formed?	generally tax-free to set up	generally tax-free to set up; individual income taxes may be due if a general partner contributes services as capital contribution	usually same as general partnership	generally not taxable unless existing business is incorporated and new owners are brought into the business	same as C corporation	generally tax-free to set up; individual income taxes may be due if a member contributes services as capital contribution

	Sole Proprietorship	General Partnership	Limited Partnership	C Corporation	S Corporation	LLC
Deductibility of business losses	owner may use losses to deduct other income on individual tax returns (subject to active-passive investment loss rules that apply to all businesses)	partners may use losses to deduct other income on individual tax returns if "at risk" for loss or debt	same as general partnership, but limited partners may only deduct "nonrecourse debts" (for which general partners are not specifically liable)	corporation may deduct business losses (shareholders may not deduct losses)	shareholders may deduct share of corporate losses on individual tax returns, but must comply with special limitations	follows sole proprietorship, partnership or corporate loss rules depending on tax status of LLC
Tax level when business is sold	personal tax level of owner	personal tax level of individual general partners	personal tax level of individual general and limited partners	two levels: shareholders and corporation may be taxed on liquidation if it includes sale or transfer of appreciated property	normally taxed at personal tax levels of individual shareholders, but corporate level tax sometimes plus if S corporation was formerly a C corporation	follows sole proprietorship, partnership or corporate tax rules depending on tax status of LLC