Summary of Non-Tax factors for Various Legal Forms of Business Organization

	Sole Proprietorship	General Partnership	Limited Liability Partnership[1]	Limited Liability Company	S Corporation	C Corporation
Life	Limited to life of proprietor. Can sell or gift assets to another person	Generally set up for a specific agreed term; usually will be terminated by death, withdrawal, insolvency or legal disability of a general partner	Generally set up for specific agreed term; usually will be terminated by death, withdrawal, insolvency or legal disability of a general partner	A dissolve date must be stated at filing	Perpetual life	Perpetual life
Legal Liability	Unlimited	Unlimited	Limited	Limited	Limited	Limited
Acquisition of Capital	Limited to what proprietor can raise	Limited to partner contributions	Limited to partner contributions	Limited to member contributions	Limited in that there can only be one class of stock outstanding, but the corporation could sell bonds or more stock so long as that would not be considered a second class of stock	May sell stock or bonds to the public
Management	All decisions by proprietor	Usually all general partners are active	Governed by the partnership agreement	Usually managed by members, but can have separate managers	Much flexibility. Control usually exercised by officers and directors.	Much flexibility. Control usually exercised by officers and directors.
Salaries to Owners	Amounts paid to owner are considered partial distributions on income. Can put spouse and children on payroll if they perform actual services for reasonable salary. Children 18 and under not subject to social security withholding or unemployment taxes. Spouse also not subject to unemployment taxes. This offers substantial tax savings benefits.	Partners are not employees. Amounts paid are considered partial distributions of income.	Partners are not employees. Amounts paid are considered partial distributions of income.	Partners are not employees. Amounts paid are considered partial distributions of income.	Owners may be employees. Salaries are taxable to them and deductible by the corporation, subject to certain limitations.	Owners may be employees. Salaries are taxable to them and deductible by the corporation, subject to certain limitations.
Taxes on Income and Expenses	All income and expenses reported on proprietor's individual tax return.	Divided among partners in accordance with investment or partnership agreement and reported on partner's individual returns	Divided among partners in accordance with investment or partnership agreement and reported on partner's individual returns	Divided among members in accordance with investment or operating agreement and reported on member's individual returns	Passed directly through to the shareholders according to the amount of stock held. Generally no income tax paid by corporation.	Taxed separately at the corporate level, again at the shareholder level if distributed as a dividend
Transfer of Interest	Easy because all assets owned by individual proprietor	Right to distributions easy to transfer, interest in assets and right to management cannot be transferred without consent of other partners	Right to distributions easy to transfer, interest in assets and right to management cannot be transferred without consent of other partners	Economic rights are transferable, management rights transferable with consent of other members	Stock easy to transfer unless restricted by agreement, by articles of incorporation or by being statutory close corporation. In practice it is normally better for the buyer to purchase "assets only" from a corporation to eliminate any surprises of liability for the buyer.	Stock easy to transfer unless restricted by agreement, by articles of incorporation or by being statutory close corporation. In practice it is normally better for the buyer to purchase "assets only" from a corporation to eliminate any surprises of liability for the buyer.
Liquidation of Business	At the discretion of the proprietor, treated as sale of individual assets	Required upon withdrawal of a partner unless	Required upon withdrawal of a partner unless	Required upon withdrawal of a member unless partnership	Normally a two-thirds vote of shareholders is required	Normally a two-thirds vote of shareholders is required

		partnership agreement permits business continuation	partnership agreement permits business continuation	agreement permits business continuation		
Pension or Profit-Sharing Plan	A sole proprietorship may have several different pension and profit sharing plans to choose from . Examples: IRAs, simple plans or a form of a 401K plan	Partners may participate only in a self-employed qualified plan, which must be much more restrictive in its coverage and provisions; where no qualified plan is maintained, employees may set up IRAs	Partners may participate only in a self-employed qualified plan, which must be much more restrictive in its coverage and provisions; where no qualified plan is maintained, employees may set up IRAs	Partners may participate only in a self-employed qualified plan, which must be much more restrictive in its coverage and provisions; where no qualified plan is maintained, employees may set up IRAs	Owners are employees and can be included in a regular, qualified plan. However, limitation exists on amount of contribution for benefit of certain stockholder employees; where no qualified plan is maintained, employees may set up IRAs (same as corporation.)	Owners are employees and can be included in a regular, qualified plan; where no qualified plan is maintained, employees may set up IRAs
Major Advantages	Easiest and least cost to start. Independence, flexibility, minimum of record keeping, tax reporting and legal requirements	Additional management input and operational responsibilities shared, additional capital and equity available, flexibility, shared overhead means increased profits, limited liability with RLLP[2]	Additional management input and operational responsibilities shared, additional capital and equity available, flexibility, shared overhead means increased profits, limited liability with RLLP[2]	Same as partnership plus limited liability without having to file annual documents, can be treated as any business form for income tax purposes	Limited liability, profits taxed once, direct pass through of income and expense to shareholder	Limited liability, can offer fringe benefits to owners and deduct them for income tax purposes
Major Disadvantages	Unlimited liability, limited life, limited management ability, limited investment potential[3]	Unlimited liability unless RLLP, annual renewal filing to keep RLLP, limited life, relations among partners can cause problems, changes of partners or partnership agreement may be difficult[3]	Unlimited liability unless RLLP, annual renewal filing to keep RLLP, limited life, relations among partners can cause problems, changes of partners or partnership agreement may be difficult[3]	Relations among members can cause problems, changes of members or operating agreement may be difficult[3]	Not every corporation can qualify, cannot deduct fringe benefits for owners or their families, relations among shareholders or directors can cause problems[3]	Difficult to get assets out or to sell business without double tax, relations among shareholders or directors can cause problems[3]

Source: Arthur Anderson and Kenner & Speck, LC

1 - Not to be confused with Limited Partnership

2 - RLLP = Registered Limited Liability Partnership

3 - In practice, liability is often not limited in forms of ownership other than a sole proprietorship or partnership because of loan guarantees, personal service corporations, etc. In these cases shareholders may be held accountable for corporate liabilities. Sometimes these liabilities may be covered with affordable insurance. Therefore, sole proprietorships and partnerships can often be just as appropriate as other legal forms. The best choice must be determined on a case-by-case basis, with personal tax situations often the key factor.

Summary of Tax Implications

	Sole Proprietor	Partnership	Limited Liability Company	S Corporation	C Corporation
Tax Year	Calendar	Year of the principal partner, typically a calendar year	Typically follows partnership rules, unless taxation as a corporation is elected	Calendar	Calendar or Fiscal
Income Taxation	Income is included on the owner's individual return	Income flows through to each partner's individual return	The default rule is taxation as a partnership, unless an election is made to be taxed as a corporation	Except in certain instances, income flows through to each shareholder's individual return, but the maximum rate is 39.6%	Corporations are taxed on their earnings with a 35% maximum rate (AMT of 20% may apply) and shareholders are taxed on dividends
Self Employment Tax	Owner's net income is fully subject	General partners are subject to tax on partnership income, but not usually so for limited partners	Members are subject to tax on income, except those qualifying as limited partners, had the entity been a limited partnership	Payments deemed to be income subject to tax, but payments deemed to be dividends not subject to tax	Does not apply, other than to a shareholder's salary
Deductibility of Losses	If the owner actively participates, losses are fully deductible against ordinary income. the owner may carry back or forward net operating losses.	Typically partners may deduct active partnerhsip losses against other income up to their basis, and passive losses only against passive income	Typically follows partnership rules, unless taxation as a corporation is elected	Shareholders may deduct losses to the extent of their basis, but their proportionate debt share does not increase their basis	Corporations may deduct losses or carry them back or forward to offset income in profitable years

Source: Kenner & Speck LC