

Comparison of Entities for Doing Business

	LLC	S Corp	C Corp	Partnership	Proprietorship
BUSINESS FORMATION and MANAGEMENT					
State filing required	Articles of organization are filed with fee of \$	Articles of incorporation are filed with fee of \$	Articles of incorporation are filed with fee of \$	Maybe, if limited partnership	None. DBA filing if using fictitious business name
Ongoing state filings and fees	\$800 franchise tax due annually	\$800 franchise tax due annually	\$800 franchise tax due annually	None	None
Corporate formalities	None. Operational formalities are governed by the Operating Agreement	Adopt and maintain bylaws, hold and document initial and annual meetings of directors and shareholders, issue stock Record stock transfers	Adopt and maintain bylaws, hold and document initial and annual meetings of directors and shareholders, issue stock Record stock transfers	See LP securities filings below	None
Securities issues	Register	Register – no more than 75 shareholders – only one class of stock	Register – can have multiple classes of stock	None unless limited partnership, offering of LP interest is a security	None
Flexible management	Operating agreement Member-managed or manager-managed	Directors, elected by shareholders; Officers appointed by directors	Directors, elected by shareholders; Officers appointed by	Managed by general partners per partnership agreement	Owner has full control
Accounting	Must use accrual accounting system in most cases	Can elect cash or accrual method of accounting	Can elect cash or accrual method of accounting	Can elect cash or accrual method of accounting	Can elect cash or accrual method of accounting
Complexity	Simple	Tax and legal complicated, shareholders must be US citizens or permanent residents in good standing, must elect “S” status within first 75 days of formation	Tax, accounting and legal complicated	Simple unless limited partners	Simple
Ownership	May be owned by another business vs. individuals	Passive losses cannot exceed 25% or revenue for 3 consecutive years or “S” status will be revoked	May be owned by another business vs. individuals	Owned by partners – another business entity may be a partner	Individual
BENEFITS					
Limited liability protection	Owners not personally responsible for business debts and liabilities	Owners not personally responsible for business debts and liabilities	Owners not personally responsible for business debts and liabilities	Owners have unlimited liability	Owner has unlimited liability
Perpetual duration of business	Maybe	Yes	Yes		Dissolves when owner ceased to do business or dies
Ease of raising capital	May sell interests, but subject to operating agreement	Shares of stock can be sold to raise capital	Shares of Stock can be sold to raise capital	Can convert to limited partnership and sell LP interests to raise capital	No
Ease of adding and transferring ownership	Depends on operating agreement. Payment for services with member shares is taxable (see note) 1	Stock easily sold or change existing owner percentages of ownership, IRS limits number of shareholders to 100	Stock easily sold or change existing owner percentages of ownership	Controlled by partnership agreement	No formalities

Comparison of Entities for Doing Business

TAXATION					
Business taxed at entity level	Automatically taxed as a proprietorship (1 owner) or as a partnership (multiple owners), but may elect to be taxed as a C Corp, that pays taxes at business level on LLC income	No – pass through	Pays taxes on corporate income, owners can split profit and loss with business to lower overall tax rate	No	No
Pass through income/losses	Profits/losses reported on owner personal tax returns, tax paid at individual level	Profits/losses reported on owner personal tax returns, tax paid at individual level	Taken on corporation's tax returns	Partner share of profits/losses reported on owner personal tax returns, tax paid at individual level	Profits/losses reported on owner personal tax returns, tax paid at individual level
Employment taxes	Profits subject to SE tax	"Reasonable salary" paid to owner-employees are subject to SS and Medicare taxes (same as SE tax)	Paid on wages, not on dividends	None	Profits subject to SE tax
Double taxation	No	No	Corporate income taxed at business level and at individual level in the form of dividends	No	No

1. If a potential member of an LLC is paid for services rendered in the form of membership shares, the transfer is treated as guaranteed interest and thus gross income and subjects the payment to taxation at the fair market value of the shares. This taxation can be circumvented if the new member immediately makes a capital contribution or transfers assets to the LLC. If in cash form, the amount can be as little as \$500 contributed.

Web resources:

C corp., S corp. or partnership?, John Ransom, Porter & Hedges LLP -

<http://www.porterhedges.com/NewsPublications/portalsresource/100207%20C%20Corp%20S%20Corp%20or%20Partnership>

Should Your Business Be and LLC or and S Corp? Darren Dahl, Inc. - <http://www.inc.com/guides/201103/s-corp-vs-llc.html>