

## Business Entity Comparison

Characteristics	Sole Proprietorship	General Partnership	Limited Liability Company	S-Corporation	Corporation
Formation	No permission required	Agreement of parties involved. No permission required	File with State for permission	File with State for permission	File with State for permission
Duration	Dependent on sole proprietor	Dissolved by death of partner or bankruptcy	Typically limited to a fixed amount of time	Perpetual	Perpetual
Liability	Sole proprietor has unlimited liability	Partners have unlimited liability	Members not typically liable for the debts of the LLC	Shareholders are typically not personally liable for the debts of the corporation	Shareholders are typically not personally liable for the debts of the corporation
Simplicity of Operation	Relatively few legal requirements	Relatively few legal requirements	Some formal requirements but less formal than corporations	Formality of board of directors, officers, annual meetings and annual reporting	Formality of board of directors, officers, annual meetings and annual reporting
Management	Full control of management and operations	Typically each partner has an equal voice unless otherwise arranged	Members have operating agreement that outlines management	The corporation is managed by the board of directors who are elected by the shareholders	The corporation is managed by the board of directors who are elected by the shareholders
Taxation	No taxable entity. Sole proprietor pays all taxes, including social security	Each partner pays tax on his/her share of the income and can deduct losses against other sources of income	If properly structured there is no tax at the entity level. Income/loss is passed through to members of the LLC and social security taxes are paid by the members	No tax at entity level. Income/loss is passed through to the shareholders	Corporation is a taxable entity and there is a potential of double taxation on dividends

### Business Entity Comparison (continued)

Characteristics	Sole Proprietorship	General Partnership	Limited Liability Company	S-Corporation	Corporation
Pass Through Income/Loss	Yes	Yes	Yes	Yes	No, corporate losses can't be deducted by shareholder
Double Taxation	No	No	No	No	Yes, there is a potential of double taxation on dividends
Cost of Creation	None	None	Filing fee with the State	Filing fee with the State	Filing fee with the State
Raising Capital	Difficult, unless individual puts in money	Contributions from partners or an addition of more partners	Possible to sell interests. Subject to operating agreement restrictions	Sell shares of stock to raise capital	Sell shares of stock to raise capital
Transferability of Interest	No	No	Possibly	Yes, subject to consent	Shares of stock in a corporation are easily transferable
Advantages	Simplicity	Ease of formation and partnership principles apply	Ease of formation and easier to operate than a corporation and provides the shareholders with liability protection except for professional malpractice	Provides the shareholders with liability protection except for professional malpractice	Provides the shareholders with liability protection except for professional malpractice and various classes of stock can be issued
Disadvantages	No protection from creditors or liability limitations and social security tax burden on net income	No protection from creditors for individual partners	Not recognized in every state and social security tax burden on net income	Limited estate and income tax planning because there is only one class of stock and shareholders can only be individuals	Removing funds from the corporation without tax consequence