



## BUSINESS ENTITY COMPARISON CHART

ENTITY	ORGANIZATION & OWNERSHIP	TAXATION OF PROFITS & LOSSES
<p><b>Sole Proprietor, Single-Member LLC, &amp; Husband/Wife Business</b></p> <ul style="list-style-type: none"> <li>• Schedule C or F, Form 1040</li> <li>• IRS Publication 334</li> </ul>	<ul style="list-style-type: none"> <li>• One individual carrying on an unincorporated trade or business.</li> <li>• A qualified joint venture whose only members are a husband &amp; wife may elect not to be taxed as a partnership &amp; file as two sole proprietorships. An LLC may not make this election.</li> <li>• Easiest business to organize w/ minimal legal restrictions.</li> <li>• The entity does not exist apart from the owner. Business starts &amp; ends based on engaging in &amp; ending engagement in business.</li> <li>• Owner has complete freedom over business decisions &amp; is entitled to 100% of the profits. Owner is limited by his/her own ability to raise capital &amp; obtain financing. Outside investors cannot be part owner.</li> <li>• Transfer of ownership consists of selling business assets.</li> <li>• Single-member LLC is taxed as sole proprietorship unless election is made to be taxed as a corporation.</li> </ul>	<ul style="list-style-type: none"> <li>• Owner is self-employed &amp; pays SE tax on net profits.</li> <li>• Net profits are subject to income tax in the year earned &amp; cannot be deferred by retaining profits.</li> <li>• Losses offset other income in year incurred, such as W-2 wages, interest, dividends &amp; capital gains. <b>Exceptions: Activity subject to passive loss; at-risk &amp; hobby loss rules.</b></li> </ul>
<p><b>Partnership</b></p> <ul style="list-style-type: none"> <li>• Form 1065</li> <li>• IRS Publication 541</li> </ul>	<ul style="list-style-type: none"> <li>• Two or more owners conducting an unincorporated trade or business.</li> <li>• Easy to organize w/ minimal legal restrictions.</li> <li>• Multi-member LLCs are taxed as partnerships, unless an election to be taxed as a corporation is made.</li> <li>• No limitations on number of partners or partner entities.</li> <li>• More flexibility than corporation in dividing up profits, losses, ownership of capital &amp; making special allocations to partners.</li> <li>• Contributing property in exchange for partnership interest is tax-free (except for receipt of cash) &amp; there is generally no tax when liquidating a partnership interest in exchange for property (unless the liquidation is in cash only).</li> <li>• Getting out of a partnership may be more complicated than starting one. A partnership agreement can restrict selling or transferring of a partnership interest.</li> <li>• A partnership can terminate if too much ownership is exchanged or liquidated in one year.</li> <li>• State law may limit an LLC's life.</li> </ul>	<ul style="list-style-type: none"> <li>• The partnership pays no income tax. Profits pass through to partners for individual payment of tax.</li> <li>• Tax to partners cannot be deferred by retaining business earnings.</li> <li>• Pass-through items retain the same character to the partners as they had to the partnership.</li> <li>• A general partner's distributive share of profits is subject to SE tax. Limited partners' share of profits not subject to SE tax unless in the form of guaranteed payments.</li> <li>• Payment for partners services to the partnership is not W-2 income, but may be guaranteed payments, profits or special allocations.</li> <li>• Losses flow through to partners &amp; can be used to offset other income such as W-2 wages, interest, dividends &amp; capital gains. <b>Exceptions: Activity subject to passive loss; at-risk; &amp; hobby loss exception rules.</b></li> </ul>



## BUSINESS ENTITY COMPARISON CHART

ENTITY	ACCOUNTING & RECORDKEEPING	FRINGE BENEFITS	LIABILITY
<p><b>Sole Proprietor, Single-Member LLC, &amp; Husband/Wife Business</b></p> <ul style="list-style-type: none"> <li>• Schedule C or F, Form 1040</li> <li>• IRS Publication 334</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting is less involved than partnerships &amp; corporations. Double-entry bookkeeping is not required as no balance sheet is needed when filing Schedule C or F.</li> <li>• Cannot file as a fiscal year business unless owner files Form 1040 under the fiscal year rules.</li> </ul>	<p>Excludable fringe benefits are generally not allowed for owner. <b>Exceptions:</b> <i>health insurance if spouse is an employee of sole proprietorship &amp; the owner is covered as a family member of the employee spouse. Also eligible for dependent care assistance fringe benefits, de minimis fringe benefits &amp; working condition fringe benefits.</i></p>	<p>Owner is personally liable for all debts &amp; lawsuits against the business. <b>Exceptions:</b> <i>If organized as an LLC under state law, liability is usually limited to owner's investment &amp; his/her own malpractice.</i></p>
<p><b>Partnership</b></p> <ul style="list-style-type: none"> <li>• Form 1065</li> <li>• IRS Publication 541</li> </ul>	<ul style="list-style-type: none"> <li>• Small partnerships are not required to provide a balance sheet &amp; can use the same bookkeeping system as a sole proprietor. Larger partnerships must provide a balance sheet w/ the return which requires double-entry bookkeeping.</li> <li>• A partnership must generally use the same tax year as its partners, but can use a fiscal year if there is a business purpose or a Section 444 election was made.</li> <li>• Complex books &amp; records are needed when a partner exchanges property, other than cash, for a partnership interest or for special allocations or basis elections.</li> </ul>	<p>Partners are eligible for some excludable fringe benefits. Taxable benefits are reported as guaranteed payments or an adjustment to a partner's distributable share of profits.</p>	<p>A general partner is personally liable for all debts &amp; lawsuits brought against the partnership. <b>Exception:</b> <i>If the partner is a limited partner, or the business is organized as an LLC under state law, liability is generally limited to the partner's investment plus his or her own malpractice.</i></p>



## BUSINESS ENTITY COMPARISON CHART

ENTITY	ORGANIZATION & OWNERSHIP	TAXATION OF PROFITS & LOSSES
<b>S corporation</b> <ul style="list-style-type: none"> <li>• Form 1120S</li> </ul>	<ul style="list-style-type: none"> <li>• A corporation that has elected to be taxed as an S corporation by filing Form 2553.</li> <li>• Ownership is through owning shares of stock. Limited to 100 shareholders.</li> <li>• Stock is limited to one class of stock with equal rights to distributions &amp; liquidation proceeds.</li> <li>• Shareholders are limited to individuals, estates, certain trusts &amp; certain charities. Corporations &amp; certain partnerships are ineligible to own stock.</li> <li>• Other ownership &amp; organization issues are the same as a C corporation.</li> </ul>	<ul style="list-style-type: none"> <li>• An S corporation generally pays no tax. Profits flow through to the shareholders.</li> <li>• Pass-through items retain the same character to the shareholder as they had to the corporation</li> <li>• Distributions are not subject to SE tax.</li> <li>• Shareholders who perform services are paid as employees &amp; income is reported on Form W-2.</li> <li>• Losses flow through to shareholders &amp; may be used to offset other income, subject to passive loss; at-risk; &amp; hobby loss exception rules.</li> </ul>
<b>C corporation</b> <ul style="list-style-type: none"> <li>• Form 1120</li> <li>• IRS Publication 542</li> </ul>	<ul style="list-style-type: none"> <li>• A legal association carrying on a trade or business organized under state law.</li> <li>• Ownership is through owning stock, and there is no limit of shareholders or type of taxpayer or entity.</li> <li>• Forming a corporation may require complex &amp; expensive legal procedures. Corporations must hold board meetings, shareholder meetings &amp; keep corporate minutes. Corporations are subject to federal &amp; state regulations.</li> <li>• The life of a corporation is perpetual. Transfers of ownership can be as easy as selling or inheriting stock.</li> <li>• Liquidating a corporation is usually a taxable event &amp; contributions in exchange for stock may be taxable.</li> <li>• Raising additional capital can be as easy as issuing new shares of stock.</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholders who perform services are paid as W-2 employees subject to payroll taxes &amp; reporting rules. Reasonable wages must be paid &amp; not inflated to reduce corporate tax liability.</li> <li>• Net profits are subject to tax at the corporate rates. Profits distributed as dividends are taxed again on the shareholder's tax return. Tax to the shareholders can be deferred by retaining earnings for business purposes.</li> <li>• Losses do not pass through to shareholders. Business losses must be carried over to a year with profits. Capital losses must be carried to a year with capital gains. At-risk limitations; hobby loss; and passive loss rules do not apply.</li> </ul>



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ENTITY	ACCOUNTING & RECORDKEEPING	FRINGE BENEFITS	LIABILITY
<b>S corporation</b> • Form 1120S	<ul style="list-style-type: none"> <li>• Double-entry bookkeeping may be required depending on income &amp; other factors affecting the need for a balance sheet on the return.</li> <li>• Must use calendar year unless it establishes a business purpose for using a fiscal year or makes a Section 444 election.</li> </ul>	Shareholder/employees are eligible for some excludible fringe benefits. Benefits added to taxable wages on W-2 of more than 2% shareholders include accident & health plans, up to \$50,000 of group health insurance and meals & lodging furnished for the employer's convenience.	A shareholder's liability is limited to the amount invested plus his or her own malpractice.
<b>C corporation</b> • Form 1120 • IRS Publication 542	<ul style="list-style-type: none"> <li>• Double-entry bookkeeping is required as the tax return requires a balance sheet.</li> <li>• No restriction on use of a fiscal year. <b>Exception: A personal service corporation (PSC) must use a calendar year unless it establishes a business purpose for using a fiscal year or makes a Section 444 election.</b></li> <li>• Required to use accrual method of accounting if average annual gross receipts exceed \$5 million.</li> </ul>	Shareholder/employees eligible for excludable fringe benefits, generally to the same extent as any other employee, w/ exceptions under the non-discrimination rules. Benefits can include health insurance & reimbursement, education, life insurance, etc.	A shareholder's liability is limited to the amount invested plus his or her own malpractice.