

■ BUSINESS ENTITY COMPARISON CHART

| | Sole Proprietorship / General Partnership | S-corporation | C-corporation | Limited Liability Company |
|---------------------------------------|--|--|---|--|
| Formation | No filing required, unless doing business under an assumed name. | State filing required; Subchapter S election typically must be made within 60 days of formation | State filing required. | State filing required. |
| Personal Liability | Owners have unlimited liability. | Shareholders are typically not personally liable for corporate debts. | Shareholders are typically not personally liable for corporate debts. | Members are not typically liable for the debts of the LLC. |
| Formalities and Record-Keeping | Relatively few legal requirements. | Formal board and shareholder meetings and minutes are required, and annual state reports required. | Formal board and shareholder meetings and minutes are required, and annual state reports required. | Formal meetings and minutes are not required; however annual state reports are required. |
| Management and Operation | Sole proprietor has full control. Partnerships have a flexible management and operational structure. | Managed by the directors, who are elected by the shareholders; directors appoint officers, who run the day-to-day operation. | Managed by the directors, who are elected by the shareholders; directors appoint officers, who run the day-to-day operations. | Management is flexible, like a partnership; typically, an operating agreement outlines management duties. A board of managers is optional. |
| Taxation | Not a separate taxable entity. Income/loss is passed through to the owners | No tax at the entity level. Income/loss is passed through to the shareholders | Taxed at the entity level. If dividends are distributed to shareholders, dividend income is also taxed at the individual level. | By default, there is no tax at the entity level; income/loss is passed through to members, like a sole proprietorship or partnership |
| Tax Reporting | Sole Proprietorships: All income is reported on Form 1040, Schedule C. Partnerships report income on Form 1065, with profit distributions on Schedule K-1. | S-corporations report income on Form 1120S, with salaries reported on Form W-2 and profit distributions on Schedule K-1. | C-corporations report income on Form 1120, with salaries reported on Form W-2 and any profit distributions on Form 1099-DIV. | See Sole Proprietorship/General Partnership; LLCs may also elect to be taxed as a C- or S-corporation. |
| Recommended for: | Owners wanting minimal formalities, maximum flexibility, and not worried about personal liability. | Owners wanting the liability protection of a corporation, with the simplicity of pass-through taxation of income. | Owners needing maximum tax and ownership flexibility, combined with liability protection. | Owners wanting the liability protection of a corporation with less corporate formalities, and the simplicity of pass-through taxation of income. |