

## Comparison of Business Entity Types

	Limited Liability Company (LLC)	Partnership	Regular C Corporation	S Corporation	Sole Proprietorship
<b>Legal Liability</b>	Limited	Unlimited for general partners, Limited for limited partners	Limited	Limited	Unlimited
<b>Continuity of Entity</b>	Varies; can affect tax status of the entity	Limited unless provided for in partnership agreement	Unlimited	Unlimited	Limited to life of proprietor
<b>Transfer of Interest</b>	Varies; can affect tax status of the entity	Difficult unless provided for in partnership agreement	Readily accomplished through stock transfer	Readily accomplished through stock transfer	Difficult
<b>Acquisition of Capital</b>	Shared by members	Easier than sole proprietorship since shared by partners	Acquired by issuing stock or bonds	Acquired by issuing stock	Limited to what proprietor can secure
<b>Tax Filing Required</b>	Depends on classification of LLC	Form 1065; distributes K-1s to partners	Form 1120	Form 1120S; distributes K-1s to shareholders	Schedule C with Form 1040
<b>Taxation of Income</b>	Generally taxed as a partnership (though classification may result in corporate taxation)	Directly to partners in proportions agreed upon by partners	Taxed once at corporate level, again at shareholder level when distributed (usually as dividends)	Taxed directly to shareholders (no double taxation)	Directly to owner
<b>Administrative and Legal Costs</b>	Similar to corporation	Medium	Highest	Highest	Lowest
<b>Fringe Benefits</b>	Depends on tax status	Generally not deductible for partners	Deductible, but subject to many rules (mainly non-discrimination)	Generally not deductible for over 2% shareholders	Generally not deductible
<b>Recommended Pension Plans</b>	Depends on tax status	IRA, Keogh, SEP, SIMPLE	Qualified plans	Qualified plans	IRA, Keogh, SEP, SIMPLE
<b>Major Advantage(s)</b>	Limited liability with partnership tax treatment; fewer ownership restrictions than S corporation	Chance of business success enhanced if right combination of partners	Limited liability Limited liability	Limited liability without double taxation of regular corporation	Independence, flexibility, minimum red tape
<b>Major Drawback(s)</b>	Inconsistent state tax treatment	Unlimited liability; frequent changes in partners can be difficult	Greater cost, government regulations, and red tape; double taxation of income	Not every corporation qualifies for S status; more limits on fringe benefits	Unlimited liability - a problem if business has financial difficulties