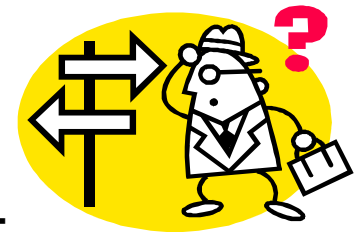


# Business entity choice



|                      | <b>Sole Proprietor</b>   | <b>Partnership</b>   | <b>S Corporation</b>   | <b>C Corporation</b>  | <b>LLC</b>   |
|----------------------|--|--|--|---|--|
| <b>Ownership</b>     | One responsible owner starts a business.   | Two or more responsible owners start a business.   | Up to 100 consenting shareholders buy stock.   | Any number of shareholders purchase stock.  | Any number of members form a legal entity.   |
| <b>Structure</b>     | The one responsible owner and the business are inseparable.  | Separate registered entity/ Partners contribute money or property and share the profit or loss.  | Registered legal entity/ Shareholders buy stock and are employees of the corporation.  | Registered legal entity/ Shareholders buy stock and are employees of the corporation.   | Members form a legal entity.   |
| <b>Taxation</b>      | Not directly taxed/ Owner files Schedule C and pays income and SE tax on net profit on Form 1040.  | Separate tax return (Form 1065) divides profit or loss between partners. Net income flows to Form 1040. SE tax applies.  | S Corporation status must be elected with Form 2553. Separate tax return ( Form 1120S) flows the income to Form 1040.  | Corporate income tax is paid with Form 1120. Income is taxed again when the profits are distributed as dividends.   | Members can elect corporate taxation, or , single owner LLCs default to sole proprietorships, and multi-owner LLCs default to partnerships.  |
| <b>Advantages</b>    | <ul style="list-style-type: none"> <li>-Easy to set-up</li> <li>-No separate tax return</li> <li>-Formal record-keeping not required</li> <li>-Owner can take money as needed.</li> <li>-Easy to discontinue</li> <li>-Can take advantage of home office and hiring children.</li> </ul> | <ul style="list-style-type: none"> <li>-Relatively easy set-up</li> <li>-Partners can take money according to their mutual agreements.</li> </ul>                            | <ul style="list-style-type: none"> <li>-Shareholders have limited liability.</li> <li>-The business is a separate entity from the shareholders.</li> <li>-No double taxation of profits</li> </ul> | <ul style="list-style-type: none"> <li>-Shareholders have limited liability.</li> <li>-The business is a separate entity from the shareholders.</li> <li>-Owners qualify for fringe benefits.</li> <li>-Easier to raise capital.</li> </ul> | <ul style="list-style-type: none"> <li>-Members have limited liability.</li> <li>-The business is a separate entity from the shareholders.</li> <li>-Members choose method of taxation.</li> </ul> |
| <b>Disadvantages</b> | <ul style="list-style-type: none"> <li>-Owner has no liability protection.</li> </ul>  | <ul style="list-style-type: none"> <li>-Partners have no liability protection.</li> <li>-Requires a separate tax return</li> <li>-Needs to be formally dissolved.</li> </ul> | <ul style="list-style-type: none"> <li>-Requires a separate tax return</li> <li>-Needs to be formally created, operated, and dissolved</li> </ul>  | <ul style="list-style-type: none"> <li>-Requires a separate tax return</li> <li>-Needs to be formally created, operated, and dissolved</li> <li>-Double taxation of profits</li> </ul>  | <ul style="list-style-type: none"> <li>-LLC laws can vary from state to state.</li> </ul>  |