

The following is an outline of the tax and other aspects of the four major business and tax entities. This is not presumed to be the whole story but just a sketch of the major characteristics and a basis for further discussion.

Please note that a LLC - Limited Liability Company can be taxed as either a "S" Corporation or a partnership, or sole proprietorship depending on how the agreement is drafted. The LLP - Limited Liability Partnership is taxed as a Partnership.

	Sole Proprietorship	Partnership	"S" Corporation	"C" Corporation
Net operating income	Taxed directly to owner on 1040	Passed through to partners 1040 via form K-1 whether or not distributed	Passed through to shareholders 1040 via form K-1 whether or not distributed	Double tax-once on C Corp., again when paid to shareholder as dividends
Net operating loss	Reduces AGI - Can be carried back 2 years and then forward 5	Passed through to partners 1040 via form K-1 Losses cannot exceed partners basis in Co.	Passed through to shareholders 1040 via form K-1 - Losses cannot exceed partners basis in Corporation	Deductible only against income - Losses can be carried back 2 years and forward 15
Capital gains	Taxed to owner	Passed through to partners 1040 via form K-1	Passed through to shareholders 1040 via form K-1	Gains taxed at regular Corporation rate
Capital losses	Offset against capital gains + \$3K per year	Passed through to partners 1040 via form K-1	Passed through to shareholders 1040 via form K-1	Deductible only against Corporation capital gains
Donations to charities	Itemized deduction on 1040	Passed through to partners 1040 via form K-1	Passed through to shareholders 1040 via form K-1	Limited to 10% of Corporation income (adjusted)
Dividends received	Taxed to owner on 1040	Passed through to partners 1040 via form K-1	Passed through to shareholders 1040 via form K-1	Can deduct from income 70% of dividends received
Tax rates	Based on taxable income: 10% to 35%	At partners individuals tax rate: 10% to 35%	At shareholders individuals tax rate	15%-to 50K 25%-50K to 75K 34%-75K to 100K
Fringe benefits	Partially deductible	Not eligible to receive benefits	Greater than 2% owners cannot receive benefits	No restrictions
Retirement plans	Various	Various	Profit sharing or defined contribution plan - no loans	Profit sharing or defined contribution plan - loans allowed

Sale of ownership	Capital gain	May be part CG and part ordinary income	Capital gain	Capital gain
Liquidation	N/A	N/A	Capital gain or loss to shareholder	Double taxation- First at Corporation level, then for shareholder
Alternative minimum tax	26% to 28% ATM	Partnership not subject - preference items passed through	S Corp. not subject - preference items passed through	ATM of 20% at Corporation level
Payroll tax	15.3% SE tax - 50% deductible on page 1 of 1040	Partnership income taxed as SE income on 1040	Undistributed income is not subject to payroll taxes	Corporation and each employee pay 7.65% of FICA wages
Items affecting the partners' and shareholders' basis in business	N/A	<ol style="list-style-type: none"> 1. income and gains increase - losses decrease 2. capital increases - distributions decrease 3. partners share of liabilities increase basis 	<ol style="list-style-type: none"> 1. income and gains increase - losses decrease 2. capital increases - distributions decrease 3. loans put into the Co. increase basis - share of liabilities do not 	N/A
Cash vs. Accrual	Can use either	Can use either unless inventory is a factor	Can use either unless inventory is a factor	Cannot use cash if receipts are \$5 million or more or if inventory is a factor
Splitting of income	N/A	Allocated according to partnership agreement	Allocated according to shares owned	N/A
Tax year	Calendar year	Must use same year as partners	Calendar year, generally	Calendar or fiscal year
Accumulated earnings tax	N/A	N/A	N/A - unless S had previously been a C Corporation	Unreasonable earnings above \$250K (\$150K for PSC) are hit with 39.6% special tax
Excessive compensation	N/A	N/A	N/A	If deemed excessive - becomes non-deductible dividend

Disallowed personal expenses	Individual tax rate	Partner pays individual tax rate	Shareholder pays individual tax rate	Double taxation - first at Co. level then at shareholder level
Personal Holding Co.	N/A	N/A	N/A	Subject to 39.6% tax rate

Other Considerations				
Ease and cost of formation	No special actions	No special actions - just written partnership agreement	Initial legal costs of \$500 to \$1,000 or \$400 to \$600 if you do it yourself	Same as S Corporation
Period of existence	Discretion of owner	Termination if partners agree or on partners death or retirement	Continues until dissolution - not affected by sale of shares	Same as S Corporation with no restriction on eligibility of shareholders
Continuing costs	Minimal	Annual Federal and State partnership returns	Annual Federal and State Corporation returns & annual state filing fee & minimum tax	Annual Federal and State Corporation returns & annual state filing fee & minimum tax
Owners' exposure to business debts	Liable for all debts of business	General partners liable for all debts of business	Shareholders liable only for capital contributions and debts that are personally guaranteed	Shareholders liable only for capital contributions and debts that are personally guaranteed
Effect on entity upon withdrawal of taxpayer	None	Dissolution of partnership	After stock is disposed of, Corporation continues	After stock is disposed of, Corporation continues
Transfer of ownership	N/A	New partner requires consent of other partners	Easy to do - just transfer stock to new owner	Easy to do - just transfer stock to new owner
Limitation of ownership	N/A	No limit on number of partners	Limited to 75 eligible shareholders	No limit on number and eligibility of shareholders