Hancey Law Offices

LEGAL NOTE

Choosing the Right Entity for Your Business

Entity Type	Liability	Taxation	Formation	Corporate Maintenance
Regular C-Corporation	Owners have limited personal liability for business debts.	Owners can split corporate profit among owners and corporation, paying lower overall tax rate. Separate taxable entity. Fringe benefits can be deducted as business expense.	May have an unlimited number of shareholders. More expensive to create than partnership or sole proprietorship.	Shares of stock may be sold to raise capital Formality requirements (e.g. annual reports, minutes, meetings) are required to maintain corporate status.
S-Corporation	Owners have limited personal liability for business debts.	Owners report their share of corporate profit or loss on their personal tax returns. Income must be allocated to owners according to their ownership interests. Owners can use corporate loss to offset income from other sources. Fringe benefits limited for owners who own more than 2% of shares.	More expensive to create than partnership or sole proprietorship.	More formality requirements than for a limited liability company which offers similar advantages.
Professional Corporation	Owners have no personal liability for malpractice of other owners. Owners have liability for own acts of malpractice.		Option when certain states do not allow professionals to form a C-Corp. More expensive to create than partnership or sole proprietorship. All owners must belong to the same profession.	Formality requirements (e.g. annual reports, minutes, meetings) are required to maintain corporate status.
Non-Profit Corporation		Full tax advantages available only to groups organized for charitable,		Formality requirements (e.g.

		scientific, educational, literary or religious purposes. Contributions to charitable corporation are tax-deductible. Fringe benefits can be deducted as business expense.		annual reports, minutes, meetings) required to maintain corporate status. Property transferred to corporation stays. there; if corporation ends, property must go to another nonprofit.
Limited Liability Company	Combines a corporation's liability protection and pass-through tax structure of a partnership.	IRS rules now allow LLCs to choose between being taxed as partnership or corporation.	More expensive to create than partnership or sole proprietorship.	Sale of member interests may take place per company policy. Significantly easier to maintain than a corporation.
Professional Limited Liability Company	Same advantages as a regular limited liability company. Members have no personal liability for malpractice of other members; however, they are liable for their own acts of malpractice.		Gives state licensed professionals a way to enjoy those advantages. Members must all belong to the same profession. Not available in all states.	
Sole Proprietorship	Owner personally liable for business debts.	Owner reports profit or loss on his or her personal tax return.	Simple and inexpensive to create and operate. No filing necessary.	
General Partnership	Owner (partners) personally liable for business debts.	Owner (partners) reports profit or loss on his or her personal tax returns.	Simple and inexpensive to create and operate. No filing necessary.	
Limited Partnership	Limited partners have limited personal liability for business debts as long as they don't participate in management.		Suitable mainly for companies that invest in real estate. More expensive to create than general partnership.	General partners can raise cash without involving outside investors in management of business. General partners personally liable for business debts.