Item	Sole Proprietor, Single-Member LLC & Husband/Wife Business	Partnership/Multi-Member LLC	S Corporation	C Corporation
Accounting & Recordkeeping	• Accounting is less involved than corporations. Double-entry bookkeeping is not required since no balance sheet is needed when filing Schedule C or F. • Cannot file as a fiscal year business unless owner files Form 1040 under the fiscal year rules.	• Small partnerships are not required to provide a balance sheet & can use the same bookkeeping system as a sole proprietor. Larger partnerships must provide a balance sheet w/ the return which requires double-entry bookkeeping. • A partnership must generally use the same tax year as its partners, but can use a fiscal year if there is a business purpose or a Section 444 election was made. • Complex books & records are needed when a partner exchanges property, other than cash, for a partnership interest or for special allocations of basis elections.	• Double-entry bookkeeping may be required depending on income & other factors affecting the need for a balance sheet on the return. • Must use calendar year unless it establishes a business purpose for using a fiscal year or makes a Section 444 election.	• Double-entry bookkeeping is required as the tax return requires a balance sheet. • No restriction on use of a fiscal year. ***Exception(s): a personal service corporation (PSC) must use a calendar year unless it establishes a business purpose for using a fiscal year or makes a Section 444 election.*** • Required to use accrual method of accounting if average annual gross receipts exceed $5 million.
Fringe Benefits	Excludable fringe benefits are generally not allowed for owner. ***Exception(s): Health insurance if spouse is an employee & the owner is covered as a family member of the employee spouse. Also eligible for dependent care assistance fringe benefits, de minis fringe benefits & working condition fringe benefits.***	Partners are eligible for some excludable fringe benefits. Taxable benefits are reported as guaranteed payments or an adjustment to a partner's distributable share of profits.	Shareholder/employees are eligible for some excludable fringe benefits. Benefits added to taxable wages on W-2 of more than 2% shareholders include accident and health plans; up to $50,000 of group term life insurance; and meals & lodging furnished for the employer's convenience.	Shareholder/employees eligible for excludable fringe benefits, generally to the same extent as any other employee with exceptions under the non-discrimination rules. Benefits can include health insurance & reimbursement, education, life insurance, etc.
Liability	Owner is personally liable for all debts & lawsuits against the business. ***Exception(s): If organized as an LLC under state law, liability is usually limited to the owner's investment & his or her own malpractice.***	A general partner is general liable for all debts & lawsuits brought against the partnership. ***Exception: If the partner is a limited partner, or the business is organized as an LLC under state law, liability is generally limited to the partner's investment plus his or her own malpractice.***	A shareholder's liability is limited to the amount invested plus his or her own malpractice.	A shareholder's liability is limited to the amount invested plus his or her own malpractice.
Organization & Ownership	• One individual carrying on an unincorporated trade or business • Easiest business to organize with minimal legal restrictions • The entity does not exist apart from its owner. Business begins & ends based on engaging in & ending engagement in business. • Owner has complete freedom over business decisions & is entitled to 100% of the profits. Owner is limited to his or her own ability to raise capital & obtain financing. Outside investors cannot be part owner.	• Two or more owners conducting an unincorporated trade or business • Easy to organize w/ minimal legal restrictions • Multi-member LLCs are taxed as partnerships unless an election to be taxed as a corporation has been made. • No limitations on number of partners or partner entities • More flexibility than corporation in dividing up profits, losses, ownership of capital & making special allocations to partners.	• A corporation that has elected to be taxed as a subchapter "S" corporation by filing IRS Form 2553. • Ownership is obtained through owning shares of stock; limited to a maximum of 100 shareholders. • Stock is limited to one class of stock with equal rights to distributions & liquidations proceeds. • Shareholders are limited to individuals, estates, certain trusts & certain charities. Corporations & certain partnerships are ineligible to own stock.	• A legal association carrying on a trade or business organized under state law. • Ownership is through owning stock, and there is no limit of shareholders or type of taxpayer or entity. • Forming a corporation may require complex & expensive legal procedures. Corporations must hold board meetings, shareholder meetings & keep corporate minutes. Corporations are subject to federal & state regulations. • The life of a corporation is perpetual. Transfer of ownership can be as easy as selling or inheriting stock.

Item	Sole Proprietor, Single-Member LLC & Husband/Wife Business	Partnership/Multi-Member LLC	S Corporation	C Corporation
Organization & Ownership (continued)	• Transfer of ownership consists of selling business assets. • Single-member LLC is taxed as a sole proprietorship unless election is made to be taxed as a corporation.	• Contributing property in exchange for partnership interest is tax-free (except for receipt of cash) & there is generally no tax when liquidating partnership interest in exchange for property (unless the liquidation is in cash only). • Getting out of a partnership may be more complicated than starting one. A partnership agreement can restrict selling or transferring partnership interest. • A partnership can terminate if too much ownership is exchanged or liquidated in one year. • State law may limit an LLC's life.	• Other ownership & organization issues are the same as a C Corporation.	• Liquidating a corporation Is usually a taxable event & contributions in exchange for stock may be taxable. • Raising additional capital can be as easy as issuing new shares of stock.
Taxation	• Owners is self-employed & pays self-employment tax on net profits • Net profits are subject to income tax in the year earned & cannot be deferred by retaining profits. • Losses offset other income (i.e. wages, interest, dividends & capital gains, etc.) in the year incurred. ***Exception(s): Activity subject to passive loss, at-risk & hobby loss rules.***	• The partnership pays no income tax. Profits pass through to partners for individual payment of tax. • Tax to partners cannot be deferred by retaining business earnings. • Pass-through items retain the same character to the partners as they had to the partnership. • A general partner's distributive share of profits is subject to SE tax. Limited partner's share of profits not subject to SE tax unless in the form of guaranteed payments. • Payment for partner's services to partnership is not W-2 income, but may be guaranteed payments, profits or special allocations. • Losses flow through to partners & can be used to offset other income such as W-2 wages, interest, dividends & capital gains. ***Exceptions: Activity subject to passive loss; at-risk & hobby loss exceptions rule.***	• Income & deductions are passed through to shareholders, avoiding corporate-level tax. An S corporation generally does not pay income tax at the entity level. Pass-through items retain same character to the shareholder as they had to the corporation. • **Income**. Income from an S corporation is passed through to shareholders & taxed as ordinary income. • **Losses.** Business losses pass through to an S corporation shareholder are treated as ordinary losses. Losses may be used to offset other income subject to passive loss, at-risk & hobby loss rules. • **Capital Gains & Losses.** Capital gains & losses pass through to shareholders as separately stated items on Schedule K-1, Form 1120S. • Shareholders who perform services are paid as employees & income is reported on Form W-2. • Dividend distributions are not subject to SE tax.	• Income is taxed at the corporate level. Profits are distributed to shareholders as taxable dividends, creating "double taxation." • **Income.** After-tax profits of a C corporation are distributed to shareholders as dividends. Qualified dividends are generally taxed to the individual shareholder at long-term capital gain rates. • **Losses.** A C corporation does not pass losses through to shareholders. • **Capital Gains & Losses.** Capital gains earned by a C corporation are taxable to the corporation at the same rate as ordinary income. Losses are not passed through to shareholders.