

## KEY CHARACTERISTICS OF THE VARIOUS LEGAL FORMS OF BUSINESS ORGANIZATION - SUMMARY

	Proprietorship	General or Limited Partnership	Limited Liability Company	C Corporation	S Corporation
<b>Simplicity in Operation and Formation</b>	Simplest to establish and operate.	Relatively simple and informal, except that a Limited Partnership must have a written agreement.	Generally similar to a Partnership, but required to file articles of organization.	Requires most formality in establishment and operation.	Same as a C Corporation but may require close oversight by an attorney or other tax adviser.
<b>Liability for Debts, Taxes, and Other Claims</b>	Owner has unlimited personal liability.	General partners have unlimited personal liability; limited partners are only at risk to the extent of their investment.	Members are generally not liable for LLC debts, but often have to guarantee loans, as a practical matter, if the limited liability company borrows money.	Stockholders are generally not liable for corporate debts, but often have to guarantee loans, as a practical matter, if the corporation borrows money. Also, corporate officers may be liable to the IRS for failure to withhold and pay withholding taxes on employees' wages.	Stockholders are generally not liable for corporate debts, but often have to guarantee loans, as a practical matter, if the corporation borrows money. Also, corporate officers may be liable to the IRS for failure to withhold and pay withholding taxes on employees' wages.
<b>Taxation of Business Profits (at Federal Level)</b>	Taxed to the sole proprietor at individual tax rates of up to 35% in 2008, depending on exemptions and deductions, which may phase out.	Taxed to partners at their individual tax rates of up to 35% in 2008, depending on exemptions and deductions, which may phase out.	Taxed to members at their individual tax rates if LLC is treated as a Partnership or S Corp. Corporate graduated tax rates apply if the LLC is treated as a C Corporation.	Taxed to the corporation at corporate tax rates of up to 39% in 2008.	Taxed to shareholders at their individual tax rates of up to 35% in 2008. However, certain activity may be taxable to the S Corporation if previously taxed as a C Corp.
<b>Double Taxation if Profits Withdrawn by Owner from Business</b>	No	No	No, unless the LLC is treated as a C Corporation.	Yes, but not on reasonable compensation paid to owners who are employees of the corporation.	No, unless the S Corporation previously taxed as a C Corp.
<b>Deduction of Business Losses</b>	Yes. May be subject to "passive loss" restrictions.	Yes, in general. But limited partner's losses and deductions cannot exceed amount invested as a limited partner, except for certain real estate ventures where qualified nonrecourse financing exists. Losses may also be subject to "passive loss" restrictions.	Yes, in general, if treated as a Partnership or S Corporation.  No, if treated as a C Corporation.	No. C Corporation must carry over initial losses to offset future profits, if any.	Yes, in general. Deductible losses limited to shareholder basis, which includes investment in stock plus amount loaned to the corporation plus cumulative earnings. Losses may also be subject to "passive loss" restrictions.

	<b>Proprietorship</b>	<b>General or Limited Partnership</b>	<b>Limited Liability Company</b>	<b>C Corporation</b>	<b>S Corporation</b>
<b>Social Security &amp; Medicare Tax on Earnings of Owner from Business</b>	15.3% of sole proprietor's self-employment earnings in 2008 on first \$102,000 of income, plus 2.9% on earnings of more than \$102,000, half of which is deductible for income tax purposes.	15.3% of each partner's share of self-employment earnings from the business in 2008 on first \$102,000 of income, plus 2.9% tax on earnings more than \$102,000, half of which is deductible for income tax purposes. Limited partners are generally not subject to self-employment tax.	If LLC is treated as a Partnership for income tax purposes, then same rules as Partnership for managing members while limited members are generally not subject to self-employment tax. If the LLC is treated as an S Corporation, then same rules as S Corporation.	Owner/Employee and C Corporation each pay 6.20% Social Security (FICA) tax on employee's first \$102,000 of wages (in 2008). Employee and C Corporation also each pay 1.45% Medicare tax on all wages.	Owner/Employee and S Corporation each pay 6.20% Social Security (FICA) tax on employee's first \$102,000 of wages (in 2008). Employee and S Corporation also each pay 1.45% Medicare tax on all wages.
<b>Unemployment Taxes on Earnings of Owner from Business</b>	None	None	None if LLC is treated as a Partnership for income tax purposes.  Yes if LLC is treated as a C or S Corporation.	Yes. State and Federal unemployment taxes apply to salaries paid to owners.	Yes. State and Federal unemployment taxes apply to salaries paid to owners.
<b>Retirement Plans</b>	Not deductible on Schedule C. However, sole proprietor is allowed to deduct contributions to individual SEP, 401k or defined benefit (DB) plan as a deduction from adjusted gross income on Form 1040.	Not deductible at entity level. However, partner is allowed to deduct contributions to individual SEP, 401k or defined benefit (DB) plan as a deduction from adjusted gross income on Form 1040.	If LLC is taxed as a Partnership, then see Partnership.  If LLC is taxed as an S Corp, then see S Corporation.  If LLC is taxed as a C Corp, then see C Corporation.	Contributions allocable to C Corporation owner are deductible at entity level. SEP, 401k and defined benefit (DB) plans are common options.	Contributions allocable to S Corporation owner are deductible at entity level. SEP, 401k and defined benefit (DB) plans are common options.
<b>Tax Treatment of Medical, Disability, and Group Term Life Insurance on Owners</b>	Not deductible on Schedule C. However, sole proprietor is allowed to deduct medical insurance premiums paid on behalf of owner as a deduction from adjusted gross income on Form 1040.	Not deductible at entity level. However, partner is allowed to deduct medical insurance premiums paid on behalf of owner as a deduction from adjusted gross income on Form 1040.	If LLC is taxed as a Partnership, then see Partnership.  If LLC is taxed as an S Corp, then see S Corporation.  If LLC is taxed as a C Corp, then see C Corporation.	C Corporations may be allowed to deduct owner medical insurance premium or reimbursements paid under medical reimbursement plan. Generally not taxable to the employee, even if employee is an owner. Similar treatment for disability and group term life insurance plans.	Fringe benefits for greater than 2% shareholders are deductible by S Corporation, but must also be included in income of the shareholder (Form W-2 taxable wages but not subject to FICA or Medicare withholding taxes), who then is allowed to deduct medical insurance premiums paid from adjusted gross income on Form 1040.
<b>Taxation of Dividends Received on Investments</b>	Dividends received on stock investments are fully taxable to sole proprietor.	Dividends taxable to individual partners of the Partnership.	If LLC is treated as either as a Partnership or S Corporation, then dividends taxable to individual owners.  If LLC is treated as a C Corp, then see C Corporation.	Dividends are taxable to the C Corporation. However, 70% of the dividends received are generally free of federal income tax (unless stock is purchased with borrowed money), an important tax advantage.	Dividends taxable to individual shareholders of the S Corporation.