Quick Guide to Business Entities

Entity	Advantages	Disadvantages
Proprietorship	1) Easy to form and simple to operate.	1) Limited source of capital.
	2) Easy to sell assets.	2) No limited liability for owner.
	3) Fewer administrative burdens.	3) No continuity past proprietor.
	4) All taxation to owner.	4) All net income is subject to self-employment (SE) tax.
Partnership	1) More sources of capital & more management resources.	1) Transfer of interests is more difficult than stock or limited liability units.
	2) Less administrative burdens than corporations.	2) Each general partner is personally liable.
	3) Pass-through taxation; special allocations allowed.	3) General partners' net income is subject to SE tax.
	4) Limited partners have limited liability and no SE tax.	4) Complexity of partnership tax rules; restrictions on choice of tax year.

C Corporation	1) Can raise capital with stock sales. 2) Owners have limited liability. 3) Corporations have perpetual life. 4) Ease of transferability of stock. 5) More management resources.	1) Earnings subject to double taxation. 2) Administrative burdens. 3) Somewhat difficult to form and to dissolve. 4) Borrowing often requires shareholder guarantees. 5) Potential double taxation on dissolution.
S Corporation	1) Pass-through status avoids double taxation. 2) Owners have limited liability. 3) Individuals tax rates may be lower than the applicable corporate rates. 4) Distributions from the S corporation are exempt from payroll taxes (assuming adequate compensation employees-shareholders).	1) Number of shareholders limited to 100; no corporate, partnership or nonresident alien shareholders. Only one class of stock permitted. 2) Lack of tax-free fringe benefits to greater-than-2% shareholder-employees. 3) Individual tax rates on the pass-through income may be higher than applicable corporate rates; restrictions on choice of tax year. 4) Shareholders must directly invest to have basis to claim losses; guarantee of entity debt is insufficient.

Limited Liability Company	1) All members have limited liability.	1) May have a limited life. Tax year choice restricted if taxed as partnership.
	2) No limit on number or types of members.	2) Transferability of interests may be limited.
	3) Pass-through taxation under partnership rules.	3) LLC laws vary from state to state.
	4) Member distributions can include special allocations.	4) LLC liability protection is relatively untested in the courts.
	5) Members may participate in management.	5) Members who have management authority, who have debt responsibility or who materially participate may be exposed to SE tax
	6) Different classes of ownership may be permitted.	