BUSINESS STRUCTURE ALTERNATIVES						
Issues to Consider	**Sole Proprietorship**	**C Corporation (Regular corporation)**	**S Corporation (Sub-chapter S corporation)**	**General partnership**	**Limited partnership**	**Limited-liability company (LLC)**
Ownership Rules	One owner	Unlimited number of shareholders with no limit on the classes of stock	Up to 75 shareholders are allowed. Only one class of stock is allowed.	Unlimited number of general partners.	Unlimited numbers of general and limited partners are allowed.	Unlimited number of “members” are allowed.
Liability of Owners	Unlimited liability for obligations of the business.	**Generally**, no personal liability for obligations of the corporation.	**Generally**, no personal liability for obligations of the corporation.	All general partners are fully liable for obligations of the business.	Unlimited liability the general partners and no personal liability for the limited partners.	**Generally**, no personal liability for obligations of the entity.
Tax Treatment	Entity is not taxed, all income and losses passed through to owner. It is an unincorporated business structure.	Corporation is taxed at the corporate level. Shareholders are taxed on any dividends received.	Entity is not taxed; profits and losses are passed through to the shareholders.	Entity is not taxed, all income and losses passed through to partners. It is an unincorporated business structure.	Entity is not taxed; profits and losses are passed through to the general and limited partners. It is an unincorporated business structure.	Entity is not taxed; profits and losses are passed through to the members. It is an unincorporated business structure.
Control and Management	Sole proprietor manages the business.	Board of Directors has overall management responsibility with officers having day-to-day responsibility.	Board of Directors has overall management responsibility with officers having day-to-day responsibility.	General partners have equal management rights unless they decide otherwise.	General partner manages the business subject to the Limited Partnership Agreement.	The Operating Agreement describes how to be managed. A Manager is usually designated to manage the business.
Capital Contributions	Sole proprietor makes any capital contributions as needed. Easiest.	Shareholders usually buy stock in the corporation. Corporation can issue common and preferred stock.	Shareholders usually buy stock in the one class of stock issued by the corporation.	General partners contribute money or services to business and receive interests in profits and losses.	Both general and limited partners contribute money or services and receive interests in the profits and losses.	The members typically contribute money or services to the LLC and receive an interest in the profits and losses.
Ease of Establishing	Easiest.	Must file Articles of Incorporation with the Secretary of State.	Must file Articles of Incorporation with the Secretary of State.	No filing. But a partnership agreement is needed.	File and application with the Secretary of State.	File Articles of Organization with the Secretary of State.
Advantages	Simple and inexpensive to create and operate; owner reports profit or loss on their	Owners have limited personal liability for business debts. Fringe benefits can	Owners have limited personal liability for business debts. Owners report their share of	Simple and inexpensive to create and operate. Owners report their share of profit or loss	Limited partners have limited personal liability for business debts as long as they don’t participate in	Owners have limited personal liability for business debts even if they participate in

	personal tax return.	be deducted as business expense. Owners can split corporate profit among owners and corporation, paying lower overall tax rate.	corporate profit or loss on their personal tax returns. Owners can use corporate tax loss to offset income from other sources.	on their personal tax returns.	management. General partners can raise cash without involving outside investors in management of business.	management. Profit and loss can be allocated differently than ownership interests. IRS rules now allow LLCs to choose between being taxed as partnership or corporation.
Disadvantages	Owner personally liable for business debts.	More expensive to create than partnership or sole proprietorship. Paperwork can seem burdensome to some owners. Separate taxable entity.	More expensive to create than partnership or sole proprietorship. More paperwork than for a limited liability company which offers similar advantages. Income must be allocated to owners according to their ownership interests. Fringe benefits limited for owners who own more than 2% of shares.	Owners (partners) personally liable for business debts.	General partners personally liable for business debts. More expensive to create than general partnership. Suitable mainly for companies that invest in real estate.	More expensive to create than partnership. State laws for creating LLCs may not reflect latest federal tax changes. The LLC itself does not pay federal income taxes, but some states impose an annual tax on LLCs.
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