



Comparison Factors	Sole Proprietorship (SP)	Limited Liability (LLC)	S Corporation (S CORP)
Business Formation	City License may be required. No State filing required	Required to file formation document with State filing agency. Most States require Operating Agreement.	Required to file formation document with State filing agency. Most States require annual meeting and bylaws. Must elect S status through the IRS, additional filing required
Size	One person ownership	Most States allow single member LLCs, but some require 2 or more members	Up to 75 members/ shareholders
Length of Existence	Sole proprietorship either ceases doing business or dies	Some States allow LLCs to have perpetual existence. others depend upon the State's requirements	Perpetual
Liability	SP has limited liability and can lose personal assets	Members are not liable for debts accrued by the company or less a member secured the debt with personal asset	Shareholders are typically not liable for the debts of the corporation. Some officers can be held liable if there is fraud or severe mismanagement.
Management and Operation	SP has full control. Partnerships have a flexible management and operational structure	Management is flexible like a partnership; typically, an operating agreement outlines management duties. partnership	Managed by Directors, who are elected by the shareholders, directors elected by point officers, who run day-to-day operations
Taxation	Not a separate taxable entity. Income/loss is passed through to ownership. Included as part of owner Form 1040	By default, there is no tax at the entity level; income/loss is passed through to members, like a SP or partnership	No tax at the entity level Income/loss passed through, Form 1120S
Dissolution	Easiest	Complex. Requires filing dissolution document the State filing agency. Some States require a tax clearance prior to dissolution	Most complex. Requires filing dissolution document the State filing agency. Some States require a tax clearance prior to dissolution
Number of Owners	One	Depends on tax status as sole proprietorship, partnership, corporation	100
Eligible Owners	Individuals	Depends on tax status as sole proprietorship, partnership, corporation	Some limitations

Owner Liability	Unlimited exposure	Limited to investment except	Limited to investment except for personal services
Transferability of Ownership	Only by sale of entire business or creation of a different entity	Per articles of organization, commonly has some limitations	Can sell all or portion of stock
Ability to Raise Capital	Limited to owners' assets and borrowing ability	LLC's borrowing abilities: can sell interests Limited to owners' contribution and to raise capital	Limited to owners' contributions and corporations borrowing abilities; can sell interest to raise capital
Allocation of Income	100% to owner	Depends on tax status as sole proprietorship, partnership, corporation	Normally pro-rated based on per share/per day
Tax Formation if in Control	No gain or loss	Depends on tax status as sole proprietorship, partnership, corporation	No gains if debt relief does not exceed basis of property transferred and no other assets received by transferee
Tax Formation if Not in Control	Not applicable since always in control	Depends on tax status as sole proprietorship, partnership, corporation	Gain or loss as if sold property transferred for the FMV of the stock received
Original Basis of Stock if Not in Control	Additional Purchases	Depends on tax status as sole proprietorship, partnership, corporation	FMV of stock received
Basis Increases from Operations	Additional purchases or cash invested	Depends on tax status as sole proprietorship, partnership, corporation	Increased by additional profits and additional contributions
Basis Decreases from Operations	Normal basis adjustments; depreciation, amortizations, etc..	Depends on tax status as sole proprietorship, partnership, corporation	Decreased by losses, deductions, and
Deductibility of Losses	Normal limitations, at-risk passive	Depends on tax status as sole proprietorship, partnership, corporation	Passed through to partners, normal limitations apply, basis, at-risk, passive
No liquidating Distributions	100% belongs to owner	Pro-rata among shares if a corporation; 100% if a sole proprietorship; based on partnership agreement if a partnership	Rights must be pro-rata among shares
Liquidating Distributions- Owner Level	Not a separate entity; therefore, all reported as part of owners' return	Depends on tax status as sole proprietorship, partnership, corporation	Sold stock for value of cash and property received

Charitable Contributions	Generally, 50% limitation	Depends on tax status as sole proprietorship, partnership, corporation	Generally, 50% limitation at shareholder level
Death-Basis Adjustments	Basis of assets is generally FMV on date of death	Depends on tax status as sole proprietorship, partnership, corporation	Basis of stock is generally FMV on the date of death
Self-Employment Tax	Yes	Depends on tax status as sole proprietorship, partnership, corporation	No exempt for any family member
Salaries Paid to Family Members	Exempt from FICA for wages paid to children of owner who are under the age of 18; spouse and parents exempt from FUTA	Depends on tax status as sole proprietorship, partnership, corporation	No, since payment of services is in the form of wages
Accounting Method	Any method that clearly reflects income	Depends on tax status as sole proprietorship, partnership, corporation	Any applicable method cannot use cash as if it's a tax shelter, required to use inventories or has annual gross receipts over certain limits
Fringe Benefits	Most are non-deductible; may be able to deduct 100% of qualifying health insurance premiums	Depends on tax status as sole proprietorship, partnership, corporation	Most are non-deductible; may be able to deduct 100% of qualifying health insurance premiums
Fringe Benefits-Owner Level	Most are non-deductible; may be able to deduct 100% of qualifying health insurance premiums	Depends on tax status as sole proprietorship, partnership, corporation	Most are non-deductible; may be able to deduct 100% of qualifying health insurance premiums
Capital Losses	Deductible by the owner up to capital gains plus \$3,000; excess carried over until death	Depends on tax status as sole proprietorship, partnership, corporation	Passed through to shareholder, character is the same as if shareholder received it directly
Income Characterization	Treatment depends on income; ordinary income; capital gains/losses, investment income, passive, etc.	Depends on tax status as sole proprietorship, partnership, corporation	Passed through to partners; character is the same as if partner received it directly
Retirement Plans	Any retirement plan, including SEPs, SIMPLEs, Keoghs, solo-401(k)	Depends on tax status as sole proprietorship, partnership, corporation	Any retirement plan exempt Keogh; deductible at corporate level; must be established at S corporation level