## **Business Entities Comparison Chart**



Entity	Summary	Filing Form	Tax Treatment	Advantage of Entity	Disadvantage of Entity
Single-Member LLC / Sole Proprietorship	<ul> <li>For one-owner businesses</li> <li>Simplest form of business structure</li> </ul>	<ul><li>Schedule C for businesses</li><li>Schedule E for rentals</li></ul>	• Net income tax based on individual tax rates	<ul> <li>Least administrative burdens</li> <li>No payroll returns for business owner</li> <li>No separate business tax returns to file</li> </ul>	Owners subject to self- employment taxes (Social Security and Medicare taxes)
Partnership	<ul> <li>Partnerships are business owned by multiple people</li> <li>If general partnership, all partners have unlimited liability</li> <li>If limited partnership, only general partners have unlimited liability</li> <li>Multi-member LLC is treated as a partnership for tax purposes</li> </ul>	• Form 1065	• Partners (the owners) receive K-1s that report their income from the partnership and they, in turn, report that income on their Form 1040s	<ul> <li>Partners get benefit of pass- through taxation</li> <li>Partners can deduct partnership losses on their personal returns</li> </ul>	<ul> <li>General partners are generally subject to self-employment taxes on all their partnership income</li> <li>True limited partners who do not work in the business are exempt from self-employment taxes</li> </ul>
S Corporation	<ul> <li>Type of business entity combining legal characteristics of a corporation with the tax advantages of a pass-through entity</li> <li>To become an S corporation, file Form 2553 with the IRS</li> </ul>	• Form 1120S	• Shareholders receive K-1s with their portion of net income and report that income on their Form 1040s	<ul> <li>S corporations can save on self-employment taxes</li> <li>Shareholders can receive a portion of their income as distributions rather than as salary (unlike sole proprietors and partners in partnerships)</li> <li>Distributions are not subject to self-employment taxes, whereas salaries are (but shareholders must receive "reasonable compensation" for services performed for the corporation, which is subject to employment taxes)</li> </ul>	<ul> <li>S corporations that were previously C corporations may be subject to a built-in gains tax</li> <li>Administrative burdens and costs involved with an S corporation that a business owner may not have otherwise (e.g., payroll processing, separate corporate tax return)</li> </ul>
C Corporation	<ul> <li>Entity distinct and separate from its shareholders</li> <li>C corporations are not flow-through entities; the income is taxed at the corporate level</li> </ul>	• Form 1120	<ul> <li>Corporation pays federal tax of 21 percent on net income</li> <li>Shareholder suffers double taxation on dividends</li> </ul>	<ul> <li>Corporate flat tax rate of 21 percent is much lower than the highest individual tax rate of 37 percent</li> <li>Good option if reinvesting corporate profits into the business operations</li> </ul>	<ul> <li>Double taxation rules may result in higher tax burden</li> <li>Corporations are taxed at 21 percent of net income; then if dividends are distributed, these dividends are taxed again at the individual level</li> </ul>