



Business Entity Comparison

Your Goal:	Start a Business	Hold Assets	Earn Income	Offer Benefits <i>or</i> Split Income
Tax Treatment:	Sole Proprietorship	Partnership	S-Corporation	C-Corporation
State Filing:	None	Articles of Organization	Articles of Organization or Incorporation	Articles of Organization or Incorporation
Tax Filing:	Schedule C	File Form 1065; use Schedule K1 to report pass-through income to partners or members	File Form 1120S; use Schedule K1 to report pass-through income to shareholders	File Form 1120 or 1120-A and pay tax on net income at corporate rates
Employment Tax:	Net income subject to self-employment tax	Ordinary income generally subject to self-employment tax; passive income is not	Must pay "reasonable salary" subject to FICA; pass-through income not subject to employment tax	Salary income subject to FICA; dividends not subject to employment tax
Employee Benefits:	Limited (proprietor is "self-employed")	Limited (partners/members are "self-employed")	Limited (>2% shareholders and spouses are "self-employed")	Greatest variety of deductible programs
Personal Liability:	Proprietor personally liable for business. Consider organizing single-member LLC to limit personal liability.	General partners personally liable for business. Most advisors recommend organizing LLC or LLP to limit personal liability.	Shareholders not personally liable for business. State law may favor organizing LLC or LLP to be taxed as S-corp.	Shareholders not personally liable for business. State law may favor organizing LLC or LLP to be taxed as C-corp.
Other:	<ul style="list-style-type: none"> - Consider hiring family to establish deductible benefit programs - Consider forming S-corp as income grows 	<ul style="list-style-type: none"> - Generally best vehicle for generating passive income from rents, royalties, etc. 	<ul style="list-style-type: none"> - Ownership limits apply (<101 shareholders; all must be US taxpayers) 	<ul style="list-style-type: none"> - Corporation can "zero out" income to avoid corporate tax or retain income to be taxed at lower corporate rate - Beware special rules for personal service corporations & personal holding companies