# Business entity choice

<table>
<thead>
<tr>
<th></th>
<th>Sole Proprietor</th>
<th>Partnership</th>
<th>S Corporation</th>
<th>C Corporation</th>
<th>LLC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ownership</strong></td>
<td>One responsible owner starts a business.</td>
<td>Two or more responsible owners start a business.</td>
<td>Up to 100 consenting shareholders buy stock.</td>
<td>Any number of shareholders purchase stock.</td>
<td>Any number of members form a legal entity.</td>
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<tr>
<td><strong>Structure</strong></td>
<td>The one responsible owner and the business are inseparable.</td>
<td>Separate registered entity/ Partners contribute money or property and share the profit or loss.</td>
<td>Registered legal entity/ Shareholders buy stock and are employees of the corporation.</td>
<td>Registered legal entity/ Shareholders buy stock and are employees of the corporation.</td>
<td>Members form a legal entity.</td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td>Not directly taxed/ Owner files Schedule C and pays income and SE tax on net profit on Form 1040.</td>
<td>Separate tax return (Form 1065) divides profit or loss between partners. Net income flows to Form 1040. SE tax applies.</td>
<td>S Corporation status must be elected with Form 2553. Separate tax return (Form 1120S) flows the income to Form 1040.</td>
<td>Corporate income tax is paid with Form 1120. Income is taxed again when the profits are distributed as dividends.</td>
<td>Members can elect corporate taxation, or, single owner LLCs default to sole proprietorships, and multi-owner LLCs default to partnerships.</td>
</tr>
</tbody>
</table>
| **Advantages**   | - Easy to set-up  
- No separate tax return  
- Formal record-keeping not required  
- Owner can take money as needed.  
- Easy to discontinue  
- Can take advantage of home office and hiring children. | - Relatively easy set-up  
- Partners can take money according to their mutual agreements.  
- Shareholders have limited liability.  
- The business is a separate entity from the shareholders.  
- No double taxation of profits | - Shareholders have limited liability.  
- The business is a separate entity from the shareholders.  
- Owners qualify for fringe benefits.  
- Easier to raise capital. | - Shareholders have limited liability.  
- The business is a separate entity from the shareholders.  
- Owners choose method of taxation. | - Members have limited liability.  
- The business is a separate entity from the shareholders.  
- Members choose method of taxation. |
| **Disadvantages**| - Owner has no liability protection. | - Partners have no liability protection.  
- Requires a separate tax return  
- Needs to be formally created, operated, and dissolved. | - Requires a separate tax return  
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- Needs to be formally created, operated, and dissolved.  
- Double taxation of profits | - LLC laws can vary from state to state. |