

Choosing The Legal Structure For Your Business

Table Comparing the Different Forms of Business

Type of Business	Sole Proprietorship	Partnerships		Corporations		Limited Liability Company
		General	Limited	C Corp	S Corp	
Definition	A business owned and operated by one person for profit.	Two or more people who jointly own or operate a business for profit.	One or more partners have limited liability and no rights of management.	An organization formed under state or federal law. An artificial entity separate from its owners.	An organization structured like a corporation but taxed like a partnership.	A business entity created by statute. The owners are called members. It is taxed like a partnership or an s corp. It has limited liability like corporations.
Ease of Formation	Easiest form of business to set up. If necessary, acquire licenses and permits, register fictitious name, and obtain taxpayer identification.	Easy to set up and operate. A written partnership agreement is highly recommended. Must acquire an Employer ID number. If necessary, register fictitious name.	File a Certificate of Limited Partnership with the Secretary of State. Name must show that business is a limited partnership. Must have written agreement, and must keep certain records.	File articles of incorporation and other required reports with the Secretary of State. Prepare bylaws and follow corporate formalities.	Must meet all criteria to file as an S corporation. Must file timely election with the IRS (within 2½ months of first taxable year).	File articles of organization with the Secretary of State. Adopt operating agreement, and file necessary reports with Secretary of State. The name must show it is limited liability company.
Period of Existence	Terminates at will or on the death of the owner.	Terminates by agreement, or by death or withdrawal of partner, unless there is a partnership agreement to the contrary.		Continues until formal dissolution. Most stable form of business. Not affected by death or disaffiliation of shareholder.		May terminate by agreement, or withdrawal of a member, depending upon operating agreement.
Taxes	Profits are taxed once. Profit and loss are reported on the owner's individual state and federal income tax returns.	Profits are taxed once. Each partner reports his or her share of the profit and loss on his or her individual state and federal income tax returns. Partnership files an information return.		Profits are subject to double taxation, once at the corporate level, and again at the shareholder level.	Profits are taxed once. Each shareholder reports his or her share of profit and loss on individual income tax returns. S corp does not pay tax, with some exceptions.	If the LLC is structured properly, each member reports his or her share of the profit and loss on his or her individual income tax returns. It is taxed like a partnership or an S corp. If the LLC is not structured properly, it is taxed like a C corporation.
Liability	The owner's personal assets are at risk.	Each partner's personal assets are at risk.	General partners' personal assets are at risk. A limited partner is liable only to the extent of his or her investment.	Limited to corporate assets, except: 1. Personally guaranteed business debts; 2. Personal negligence or fault; or 3. Corporate form is found to be a sham.		Similar to rules for corporations.
Dissolution	Easiest form of business to dissolve. Pay debts, taxes, and claims against business.	Pay debts, taxes, and claims against business. Settle partnership accounts.	Pay debts, taxes, and claims against business. Settle partnership accounts. File cancellation of certificate with the Secretary of State.	Obtain shareholder approval to dissolve. File statement of intent to dissolve with the Secretary of State. Pay debts, taxes, and claims against business. Distribute corporate assets to shareholders. Gain on distribution of assets is taxed once, with some exceptions.		Pay debts, taxes, and claims against business. Distribute remaining assets to members. File articles of dissolution with the Secretary of State.
				Gain on distribution of assets is subject to double taxation.		