

## BUSINESS ENTITY COMPARISON CHART - LEGAL CHARACTERISTICS

	Sole Proprietorship	General Partnership	Limited Partnership	C Corporation	S Corporation	LLC
Who owns business?	sole proprietorship	general partners	general and limited partners	shareholders	same as C corp	members
Personal liability for business debts	sole proprietor personally liable	general partners personally liable	only general partner(s) personally liable	no personal liability of shareholders	same as C corp	no personal liability of members
Restrictions on number of owners	only one sole proprietor	minimum two general partners	minimum one general partner and one limited partner	most states allow one-person corporations; some require two individuals to serve as officers	same as C corp, but no more than 100 shareholders permitted	one member allowed in all states
Who makes management decisions?	sole proprietor	general partners	general partner(s) only (not limited partners)	board of directors	same as C corp	ordinarily members; or managers if manager-managed LLC
Effect on business if an owner dies or departs	dissolves automatically	dissolves automatically unless otherwise stated in partnership agreement	same as general partnership	no effect, unless corporation is solely owned	same as C corp	in some states, dissolves unless remaining members vote to continue business
Source of start-up funds	sole proprietor	general partners	general and limited partners	initial shareholders (in some states, cannot buy shares with a promise to perform services or contribute cash in the future)	same as C corp but cannot issue different classes of stock with different financial provisions	members (may usually invest with promise to perform services or contribute cash in the future)
Who generally finds this the best way to do business?	owner who wants legal and managerial autonomy and minimal organizational red tape	joint owners who are not concerned with personal liability for business debts	joint owners who want partnership tax treatment and some nonmanaging investors; general partners must be willing to assume personal liability for business debts	owners who want limited liability and ability to split income between themselves and a separately taxed business	owners who want limited liability and individual tax rates to apply to business income; must be willing to meet initial and ongoing S corp requirements	generally, owners who want limited liability and pass-through taxation; particularly beneficial for smaller, privately held businesses
How business profits are taxed	individual tax rates of sole proprietor	individual tax rates of general partners, unless business elects corporate treatment	individual tax rates of general and limited partners, unless business elects corporate tax treatment	split up and taxed at corporate rates and individual tax rates of shareholders	individual tax rates of shareholders	individual tax rates of members
Deductibility of business losses	owner may use losses to deduct against other income on individual tax returns (subject to	partners may use losses to deduct other income on individual tax returns if "at risk"	same as general partnership, but limited partners may only deduct "nonrecourse	corporation may deduct business losses (shareholders may not deduct	shareholders may deduct share of corporate losses on individual tax returns,	follows sole proprietorship or partnership rules depending on tax status of LLC

passive loss rules that apply to all businesses)

for loss or debt and subject to active-passive loss rules

debts" (for which general partners are not specifically liable)

losses)

but must comply with passive loss limitations; shareholders normally do not get the tax benefit of entity-level debt

Tax level when business is sold

personal tax level of owner

personal tax level of individual general partners

personal tax level of individual general and limited partners

two levels: shareholders and corporation may be taxed on sale of business

normally taxed at personal tax levels of individual shareholders, but corporate level sometimes due if S corporation was formerly a C corporation

follows sole proprietorship or partnership rules depending on tax status of LLC