O'MALLEY & BERBERICH CPAs P.C.

ENTITY COMPARISON CHART

	Sole Proprietorship	Partnership	Corporation	S Corporation	Limited Liability Company
IRS Form	***Sch. C., Form 1040***	***Form 1065***	***Form 1120***	***Form 1120S***	***Form 1065***
Organization & Administration	Easiest business to organize. Allows complete intermingling of business and personal funds (although this is not recommended). Partnerships and corporations cannot intermingle business with personal funds. Business return is filed along with the owner's individual income tax return.	Easy to organize. A written partnership agreement is recommended, but not required. The partnership agreement determines how income and losses are allocated to the partners. If a partnership agreement does not exist, partnership items pass through based on the partners' ownership interest.	Difficult and expensive to organize. Must hold periodic board meetings and keep minutes. Must comply with federal and state regulations.	Set up as a regular corporation. Must make election to be treated as an S corporation. Certain events will cause automatic termination of S status.	An existing partnership can generally register for LLC status in the state in which it conducts business. Registration is generally less complicated than forming a corporation.
Bookkeeping & Accounting	Fewer requirements on what type of bookkeeping system or accounting method is used. The system must be consistent, clearly show income and expenses, and allow the taxpayer to file an accurate return. The sole proprietorship must follow the same tax year as the owner.	Depending on income and assets, the partnership may be required to include a balance sheet with its income tax return. Therefore, the partnership should use the double entry method for bookkeeping purposes. If a partner exchanges property other than cash in exchange for an interest in a partnership, special accounting rules must be applied.	The balance sheet on the corporation's tax return must agree with the corporate books. The corporation must use a double entry bookkeeping system. The corporation must file all necessary employment tax returns.	Must use double entry bookkeeping. Must file all required payroll tax and reporting forms.	Same as a partnership.
Owner Control & Flexibility	Owner is free to make all business decisions.	Control of the business operations is divided among partners.	Shareholders have control over the corporation to the extent that they own voting stock.	Shareholders have control over the corporation to the extent that they own voting stock.	Control is divided among members.
Transfer of Ownership	A sole proprietorship is not a separate entity from its owner. "Sale" of a sole proprietorship is actually a sale or assets.	The partnership agreement may restrict the sale of a partnership interest, and may control the terms of the sale.	Ownership is easily transferred by selling shares of stock. The corporate charter may place certain restrictions on the sale of stock by shareholders.	Ownership is easily transferred by selling shares of stock. The corporate charter may place certain restrictions on the sale of stock by shareholders.	The operating agreement may restrict transfer of ownership interest.
Advantages & Disadvantages	**Advantages:** -Minimum legal restrictions. -Easy to discontinue. **Disadvantages:** -Unlimited liability. -May not bring in new owners of outside capital contributions. -Income tax cannot be deferred by retaining profits.	**Advantages:** -A partnership can be a good way to combine the skills and/or financial abilities of several different people. **Disadvantages:** -A partnership is often easier to get into than out of. -General partners are liable for actions of other partners.	**Advantages:** -Limited liability. -Perpetual life. -Ability to raise capital through issuance of stock. -Ease of transfer of ownership. **Disadvantages:** -Double taxation of profits. - Corporate charter restricts types of business activities. -Subject to various state and federal controls.	**Advantages:** -Limited liability. -Avoids double taxation of profits. -Profits passed through are not subject to SE tax as in a partnership. **Disadvantages:** -Shareholders pay tax on earnings even if undistributed. -Less flexibility in choosing a tax year. -Contribution limits to a qualified retirement plan are based on employee/shareholder's wages, not overall profits such as a sole proprietor.	**Advantages:** -Avoids certain S corporation restrictions. -Avoids double taxation of profits. **Disadvantages:** -Inconsistent treatment state to state. -Must have at least two owners. -Relatively new business entity with little regulatory or case law to follow.

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IRS Form	***Sch. C., Form 1040***	***Form 1065***	***Form 1120***	***Form 1120S***	***Form 1065***
Entity Description	One individual who carries on an unincorporated trade or business. (A husband and wife who own a business jointly and contribute to the business as owners must file Form 1065 as a partnership.)	An association of two or more individuals who make a legal contract to carry on a trade or business. Each partner contributes cash, property and/or services. A joint undertaking merely to share expenses or share ownership of property does not necessarily constitute a partnership. A partnership has its own legal status.	A business entity that carries its own legal status, separate and distinct from its owners.	A corporation can elect to be taxed as an S corporation by filing Form 2553. Only domestic corporations with one class of stock are eligible. Limited to 75 shareholders, and may not have another corporation as a shareholder. (Exception for qualified subchapter S subsidiary.) Other restrictions apply.	A hybrid entity, generally formed under state law, that combines the pass-through attributes of a partnership with the limited liability of a corporation. The LLC can also elect to be taxed as a C corporation. For purposes of this chart, the LLC is assumed to have not made such an election.
Taxation	Net profit is computed on Schedule C and is reported as income on the owner's Form 1040.	Partnership income and expenses flow through to the individual partners. Income is taxed to the partner whether or not it is actually distributed. Pass-through items retain the same character in the hands of the partner as they had in the hands of the partnership.	A C corporation pays tax on its profits. When the owners (shareholders) take profits from the corporation, the distributions take the form of taxable dividends (double taxation). "Personal Service Corporations" are taxed at a higher rate.	Taxed in the same manner as a partnership. Income and expenses flow through to shareholders. Pass-through items retain the same character in the hands of the shareholder as they had in the hands of the corporation.	Taxed as a partnership. Income and expenses flow through to members.
Wages & SE Tax	Owner is subject to self-employment tax of 15.3% of net earnings. Self-employment tax is computed on Schedule SE and is reported as "Other Taxes" on Form 1040.	A general partner's share of business income (including guaranteed payments) is subject to self-employment tax. A limited partner's share of business income is not subject to self-employment tax unless the partner performs services for the partnership. Other items, such as interest and dividends, retain their character and are passed through to the partner's individual income tax return.	Shareholders who perform services for a corporation, including officers, are treated as employees. Wages of corporate employees are subject to payroll tax and withholding. Wages paid to employee-shareholders must be "reasonable." Dividend distributions are not subject to SE tax.	An employee/shareholder of an S corporation receives wages for services rendered. Wages paid to employee/ shareholders must be "reasonable." Additional profits are passed through to the shareholder and are taxable for income tax purposes but not for SE tax purposes. Double taxation of profits is avoided.	Profits are subject to income tax in the same way as a partnership. Members' business income (including guaranteed payments) is subject to self-employment tax.
Losses	Business losses can offset other income such as interest, capital gains, or a spouse's wages if filing a joint return. Subject to "Hobby Loss" rules under IRC § 183.	Losses flow through to partners. Recognition of loss by a partner is limited by the partner's basis, at-risk rules and passive activity rules. Subject to "Hobby Loss" rules under IRC § 183.	Capital losses are allowed only to the extent of capital gains. Net operating loss of a corporation may be carried over against corporate income, but is not directly passed through to shareholders.	Losses flow through to shareholders. Recognition of loss is limited by the shareholder's basis, at-risk rules and passive activity rules. Subject to "Hobby Loss" rules under IRC § 183.	Losses flow through to members. Recognition of loss by members is limited by the member's basis, at-risk rules, and passive activity rules. Subject to "Hobby Loss" rules under IRC § 183.
Fringe Benefits	Only the amount paid on behalf of employees is deductible. Amounts paid on behalf of the sole proprietor are not deductible. **Exception:** A sole proprietor can deduct medical insurance premiums and medical reimbursement costs under an accident and health plan that covers all employees. If the sole proprietor's spouse is covered under a plan that also covers the owner as part or the family, the deduction is still allowed.	Generally not tax free to partner. Must be included in partner's income.	Owner/employees are entitled to the same tax-free fringe benefits as other employees (subject to discrimination rules).	Restricted for employee shareholders that own more than 2% of the corporation. Must generally be included in wages.	Subject to the same rules as a partnership.
Personal Liability	Sole proprietor is liable for all business debts and actions.	A general partner is personally liable for all partnership debt. A limited partner's liability is usually limited to the partner's investment in the partnership.	Shareholders are not liable for debts incurred by the corporation. Liability is generally limited to the amount invested.	Shareholders have limited liability, just as with a C corporation.	The degree of liability protection for LLC members varies from state to state.