

Which Legal Entity is Right for Your Business?

	Sole Proprietorship	“C” Corporation	“S” Corporation	Limited Liability Company
Formation Requirements, Costs	None	Must file with state, state specific filing fee required	Must file with state, state specific filing fee required	Must file with state, state specific filing fee required
Personal Liability	Unlimited liability	Shareholders are not typically held liable	Shareholders are not typically held liable	Members are not typically held liable
Administrative Requirements	Relatively few requirements	Election of board of directors/officers, annual meetings, and annual report filing requirements	Election of board of directors/officers, annual meetings, and annual report filing requirements	Relatively few requirements
Management	Full Control	Shareholders elect directors who manage business activities	Shareholders elect directors who manage business activities	Members can set up structures as they choose
Term	Terminated when proprietor ceases doing business or upon death	Perpetual; can extend past death or withdrawal of shareholders	Perpetual; can extend past death or withdrawal of shareholders	Perpetual, unless state requires fixed amount of time
Taxation	Entity not taxable. Sole proprietor pays taxes	Taxed at corporate rate and possible double taxation; Dividends are taxed at the individual level if distributed to shareholders	No tax at the entity level; Income passed through to the shareholders	No tax at the entity level; Income passed through to members
Double Taxation	No	Yes, taxed at corporate level and again if distributed to shareholders in the form of dividends	No	No
Self Employment Tax	Subject to self employment tax	Salary subject to self employment tax	Salary subject to self employment tax, but shareholder distributions are not	Salary subject to self employment tax
Pass Through Tax Treatment	Yes	No	Yes	Yes
Tax Forms	1040 - Schedule C	1120	1120S Shareholder gets K-1 for 1040	1 member 1040 Sch. C Multi-Member 1065, Member gets K-1 for 1040
Transferability of Interest	No	Shares of stock are easily transferred	Yes, but must observe IRS regulations on who can own stock	Possibly depending on restrictions outlined in the operating agreement
Capital Raising	Individual provides capital	Shares of stock are sold to raise capital (Security laws apply)	Shares of stock are sold to raise capital. Limitations prevent “S” Corp. stock ownership by “C” corporations	May sell interest, but subject to operating agreement (Securities laws may also apply)
Ease of Operation	Easiest	Must have annual meetings, Board of Directors meetings, corporate minutes and stock meetings	Must have annual meetings, Board of Directors meetings, corporate minutes and stockholder meetings	Easy, some states may require more than others

