

KEY CHARACTERISTICS OF THE VARIOUS LEGAL STRUCTURES OF BUSINESS ORGANIZATIONS (see next 5 pages for printable format of each type of business structure)

| | PROPRIETORSHIP | GENERAL OR LIMITED PARTNERSHIP | LIMITED LIABILITY COMPANY | REGULAR CORPORATION | S CORPORATION |
|--|--|--|--|---|---|
| Simplicity in Operation and Formation | Simplest to establish and operate. | Relatively simple and informal, except that a limited partnership must have a written agreement. | Generally similar to a partnership but required to file articles of organization. | Requires most formality in establishment and operation. | Same as a regular corporation. |
| Liability for Debts, Taxes, and Other Claims | Owner has unlimited personal liability. Also, owner may be liable to the IRS for failure to withhold and pay withholding taxes on employees' wages. | General partners have unlimited personal liability; limited partners are only at risk to the extent of their investment. Partners may be liable to the IRS for failure to withhold and pay withholding taxes on employees' wages. | Members are generally not liable for an LLC's debts but they often have to guarantee loans as a practical matter, which is similar to a corporation. Owners / officers may be liable to the IRS for failure to withhold and pay withholding taxes on employees' wages. | Stockholders are not generally liable for corporation debts, but often have to guarantee loans as a practical matter if the corporation borrows money. Corporate officers may be liable to the IRS for failure to withhold and pay withholding taxes on employees' wages. | Stockholders are not generally liable for corporate debts, but often have to guarantee loans, as a practical matter, if the corporation borrows money. Corporate officers may be liable to the IRS for failure to withhold and pay withholding taxes on employees' wages. |
| Federal Income Taxation of Business Profits | Taxed to the owner at individual tax rates, subject to exemptions and deductions. | Taxed to partners at their individual tax rates. | Taxed to owners at their individual tax rates, unless the owners elect IRS treatment of the LLC as a corporation. | Taxed to the corporation at corporate tax rates. | Taxed to individual owners at their individual rates--certain gains are taxable to the corporation as well. |
| Double Taxation if Profits Withdrawn from Business | No. | No. | No, unless the LLC is treated as a corporation. | Yes, but not on reasonable compensation paid to owners who are employees of the corporation. | No, in general. |
| Deduction of Losses by Owners | Yes. May be subject to "passive loss" restrictions. | Yes, but limited partner's deductions cannot exceed amount invested as a partner--except for real estate, in some instances. Losses are generally restricted by the "passive loss" rules. | Yes, generally, if treated as a partnership by IRS. No, if treated as a corporation by IRS. Losses are generally restricted by the "passive loss" rules. | No. Corporation must carry losses back or forward against profits to realize the tax benefit . | Yes, in general, for federal tax purposes, but not for state tax purposes in all states. Loss for a shareholder limited to investment in stock plus amount loaned to the corporation. Losses may be subject to "passive loss" restrictions. |
| Social Security Tax on Earnings of Owner from Business | Owner is subject to both the employee's and employer's share of Social Security (FICA) tax on self-employment earnings up to a certain level and the employee's and employer's share of medicare tax beyond that level. | Partner(s) subject to both the employee's and employer's share of Social Security (FICA) tax on self-employment earnings up to a certain level and the employee's and employer's share of Medicare tax beyond that level. | Partner(s) subject to both the employee's and employer's share of Social Security (FICA) tax on self-employment earnings up to a certain level and the employee's and employer's share of Medicare tax beyond that level, but same as a corporation, if the LLC is treated as a corporation. | Corporation pays half and employee pays half. Above a certain level of wages only medicare tax is paid. | Corporation pays half and employee pays half. Above a certain level of wages only medicare tax is paid. |
| Unemployment Taxes on Earnings of Owner | None. | None. | Same as a corporation if owners elect to have LLC treated as a corporation. | Yes. State and federal unemployment taxes apply to salaries paid to owners. | Yes. State and federal unemployment taxes apply to salaries paid to owners. |
| Retirement Plans | Keogh plan. Deductions and other features are generally the same as those for corporate pension and profit-sharing plans. But a proprietor cannot borrow from a Keogh Plan. | Keogh plan. Same as for proprietorships. A 10% partner cannot borrow from Keogh Plan. | Same as for partnerships if IRS treatment elected as a partnership. Same as a corporation if IRS treatment as a corporation is elected. | Corporate retirement plans are no longer significantly better than Keogh plans. Deduction limits are same now as for Keogh. Participants may be able to borrow from plan. | Plans now essentially identical to regular corporate retirement plans, except limitations apply to certain shareholders /employees when borrowing from plan. |
| Tax Treatment of Medical, Disability, and Group-Term Life Insurance on Owners | Not deductible, except part of medical expenses may be an itemized deduction on owner's tax return, including medical insurance premiums. A certain % of medical insurance on an owner is allowed as a deduction from adjusted gross income. | Not deductible, except part of medical expenses may be an itemized deduction on owner's tax return, including medical insurance premiums. A certain % of medical insurance on an owner is allowed as a deduction from adjusted gross income. | Same as a partnership, if treated as a partnership by IRS. Same as a corporation if treatment as a corporation is elected. | Corporations may be allowed to deduct corporation medical insurance premium or reimbursements paid under medical reimbursement plan. Generally not taxable to the employee, even if employee is an owner. Similar treatment for disability and group-term life insurance plans. | Fringe benefits for some shareholders are deductible by corporation, but must be included in income of the shareholder who may be allowed to deduct a% of medical insurance from adjusted gross income. |
| Taxation of Dividends Received on Investments | Dividends received on stock investments are fully taxable to owner. | Dividends taxable to individual partners. See proprietorship. | Dividends taxable to individual members, if the LLC is treated as a partnership. | Dividends are taxable to the corporation. However, 70% of the dividends received are generally free of federal income tax (unless stock is purchased with borrowed money). | Dividends taxable to individual shareholders of the S corporation, as in the case of a partnership. |

NOTE: This comparison is intended as general information only and may not include the latest developments. Check with your accountant or attorney for up-to-date information about which structure fits best for your individual situation.