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Tax Library

**Choosing the Right Business Entity – A Review of Some of the More Common Forms of Doing Business To Help You Make
An Informed Decision**

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	Sole Proprietorship	General Partnership	LLP	Limited Partnership	LLLP	C-Corp	S Corp	LLC
Limited Liability	No	No	Yes	General Partner-No. Limited partner-Yes.	Yes	Yes	Yes	Yes
Levels of Federal Income Tax	One	One	One	One	One	Two	One. (Two if previously formed as a C-corp.)	One
Minimum Number of Owners	One	Two	Two	Two	Two	One	One	One
Types of Owners	Any	Any	Any	Any	Any	Any	Limited	Any
Classes of Ownership	One	Multiple permitted	Multiple permitted	Multiple permitted	Multiple permitted	Multiple permitted	One class of stock; variations in voting rights permitted.	Multiple permitted
Management Rights	Unlimited	Unlimited	Unlimited	General Partner-unlimited. Limited partner-very limited.	General Partner-unlimited. Limited partner-very limited.	Vested in board of directors and officers.	Vested in board of directors and officers.	May be vested in members or appointed managers.
Taxation of Capital Contributions	Not taxable.	Generally, not.	Generally, not.	Generally, not.	Generally, not.	Taxable, unless certain conditions met.	Taxable, unless certain conditions met.	Generally, not.
Special Allocation of Profits and Losses	N/A	Yes	Yes	Yes	Yes	No	No	Yes
Deductibility of Losses	No restriction	Restricted to basis which includes	Restricted to basis which includes	Restricted to basis which includes	Restricted to basis which includes	Shareholders may not deduct	Restricted to basis which does NOT	Restricted to basis which includes

		partner share of debt.	partner share of debt.	partner share of debt.	partner share of debt.	corporate losses.	include partner share of debt	member share of debt.
Taxation of Cash Distributions	Nontaxable	Nontaxable to extent of basis	Nontaxable to extent of basis	Nontaxable to extent of basis	Nontaxable to extent of basis	Yes	Nontaxable to extent of basis	Nontaxable to extent of basis
Taxation of Distribution of Appreciated Property	Nontaxable	Nontaxable to extent of basis	Nontaxable to extent of basis	Nontaxable to extent of basis	Nontaxable to extent of basis	Taxable to both the corporation and shareholder	Taxable	Nontaxable to extent of basis
Taxation at Liquidation	No	Nontaxable to extent of basis	Nontaxable to extent of basis	Nontaxable to extent of basis	Nontaxable to extent of basis	Yes	Generally, no.	Nontaxable to extent of basis
Restrictions on Transfer of Ownership	No	Partners may agree among themselves	Partners may agree among themselves	Partners may agree among themselves	Partners may agree among themselves	Generally, no, but shareholders may agree among themselves	Certain persons prohibited from owning stock	Members may agree among themselves
Default Classification for Tax Purposes	Sole Proprietorship	Partnership	Partnership	Partnership	Partnership	Corporation	S-corporation	Sole proprietorship or partnership depending on number of members.
Earnings Subject to Self-Employment Taxes	Yes	Yes	Yes	General partner-yes. Limited partner-no (unless actively participating in management).	General partner-yes. Limited partner-no (unless actively participating in management).	No.	Shareholder salary or wages is subject to employment taxes. Shareholder distributive shares of earnings are not.	Yes, if member is not treated as a limited partner.