

Comparison of Common Entities

| <u>Characteristics</u> | <u>Sole Proprietorship</u> | <u>C-Corp</u> | <u>S-Corp</u> | <u>Limited Liability Company</u> |
|--|---|--|--|--|
| Formation | No state filing req'd | State filing req'd | State filing req'd | State filing req'd |
| Duration of Existence | Dissolved if entity ceases doing business or upon the death of another sole prop. | Perpetual | Perpetual | Dependent on requirements imposed by the state of formation |
| Liability | Sole proprietor has unlimited liability | Shareholders are typically not responsible for the debts of the corporation. | Shareholders are typically not responsible for the debts of the corporation. | Members are not typically liable for the debts of the LLC. |
| Ownership Definition | None | Stock | Stock | Membership Interests |
| Owners Restrictions | None | None | Limited to certain number and certain type | None, unless make special tax elections |
| Management | Sole proprietor has full control of management and operations. | Managed by officers and directors, who are appointed by the shareholders. | Managed by officers and directors, who are appointed by the shareholders. | Have option for members to appoint manager or to have members manage the business |
| Taxation | Not a taxable entity. Sole proprietor pays all taxes. | Taxed at the entity level. If dividends are distributed to shareholders, dividends are also taxed at individual level. | No tax at the entity level. Income/loss is passed through to the shareholders. | Typical structure allows no tax at the entity level. Income/loss is passed through to members. |
| Pass Through Income/Loss | Yes | No | Yes | Yes, unless make alternative tax election |
| Double Taxation | No | Yes, if income is distributed to shareholders in the form of dividends | No | No, unless make election to be taxed as C-corp |
| Cost of Creation | None | State filing and formal documentation required to be filed and maintained | State filing and formal documentation required to be filed and maintained | State filing and formal documentation required to be filed and maintained |
| Deductibility of Fringe Benefits for Owners | No | Yes | Restricted | Restricted |
| 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 operating agreement. |