Business Entities Comparison Chart

BRADFORD TAX INSTITUTE

Entity	Summary	Filing Form	Tax Treatment	Advantage of Entity	Disadvantage of Entity
Single-Member LLC / Sole Proprietorship	• For one-owner businesses • Simplest form of business structure	• Schedule C for businesses • Schedule E for rentals	• Net income tax based on individual tax rates	• Least administrative burdens • No payroll returns for business owner • No separate business tax returns to file	• Owners subject to self-employment taxes (Social Security and Medicare taxes)
Partnership	• Partnerships are business owned by multiple people • If **general partnership**, all partners have unlimited liability • If **limited partnership**, *only* general partners have unlimited liability • **Multi-member LLC** is treated as a partnership for tax purposes	• Form 1065	• Partners (the owners) receive K-1s that report their income from the partnership and they, in turn, report that income on their Form 1040s	• Partners get benefit of pass-through taxation • Partners can deduct partnership losses on their personal returns	• General partners are generally subject to self-employment taxes on all their partnership income • True limited partners who do not work in the business are exempt from self-employment taxes
S Corporation	• Type of business entity combining legal characteristics of a corporation with the tax advantages of a pass-through entity • To become an S corporation, file Form 2553 with the IRS	• Form 1120S	• Shareholders receive K-1s with their portion of net income and report that income on their Form 1040s	• S corporations can save on self-employment taxes • Shareholders can receive a portion of their income as distributions rather than as salary (unlike sole proprietors and partners in partnerships) • Distributions are not subject to self-employment taxes, whereas salaries are (but shareholders must receive "reasonable compensation" for services performed for the corporation, which is subject to employment taxes)	• S corporations that were previously C corporations may be subject to a built-in gains tax • Administrative burdens and costs involved with an S corporation that a business owner may not have otherwise (e.g., payroll processing, separate corporate tax return)
C Corporation	• Entity distinct and separate from its shareholders • C corporations are not flow-through entities; the income is taxed at the corporate level	• Form 1120	• Corporation pays federal tax of 21 percent on net income • Shareholder suffers double taxation on dividends	• Corporate flat tax rate of 21 percent is much lower than the highest individual tax rate of 37 percent • Good option if reinvesting corporate profits into the business operations	• Double taxation rules may result in higher tax burden • Corporations are taxed at 21 percent of net income; then if dividends are distributed, these dividends are taxed again at the individual level