

**Prepared for the South Metro Denver SBDC
by Strait Management Services**

Comparisons of Business Structures

Entity	Sole Proprietorship	General Partnership	"S" Corporation	"C" Corporation	Limited Liability Company (LLC)
Definition (ownership)	1 Owner. No Restrictions	2 or more people, written or oral agreement.	1 to 75 owners separate legal entity.	1 or more owners No restrictions, separate legal entity.	1 or more owners No restrictions, separate legal entity.
Type of Owners	No Restrictions	No Restrictions	With some exceptions, must be individuals. No non-resident aliens.	No Restrictions	No Restrictions, including foreign persons.
Required Filings	Trade Name Registration	Certificate of Partnership; Trade Name Registration; IRS Form SS-4	Articles of Incorporation; IRS Form SS-4; IRS Form 2553	Articles of Incorporation; IRS Form SS-4	Articles of Organization
Advantages	Easy to form (\$20 or less) total control, No sharing of profits, Children under 18 - no SS, worker's comp., or unemployment.	Responsibilities and work can be shared , Moral support, feedback, etc. Some general partner liability protection available.	Limited personal liability , losses and tax credits flow directly to the owners, business life is perpetual	Limited Personal Liability , Health & life insurance on owner are tax-deductible, business life is perpetual.	Limited liability for all members , Members may transfer ownership rights, rights to profits, etc. Can elect tax treatment and differing profit and loss allocations.
Disadvantages	Unlimited Liability , everything you have is at risk - illness, accident, etc. can ruin the business. Self-employment tax may be a disadvantage.	Generally unlimited liability - all partners are liable for acts of all other partners. Mgmt. by committee is difficult. Death, withdrawal, of one partner can endanger the business. Can be hard to get rid of a bad partner.	Same as "C" , Except no double taxation and can pass losses and profits to owners.	Double taxation. Can be expensive to form. Can't pass losses through to owners. May still have to personally guarantee loans and credit.	Requires unanimous written consent to add members, also to keep going if a member dies or withdraws.
Tax Forms	#1040-C	#1065 (no taxes due), and #1040-E	#1120S (no taxes due), and #1040-E	#1120, then if dividends, #1040-B	Tax treatment is flexible.
Summary	Usually the best format for <u>new small businesses</u> with no high risk. You keep all the profits and accept entire risk of loss. Most popular form (over 80%) form of business.	Usually better off as an "S" corp.	Best for more than 1 owner and those extremely concerned about liability.	With new tax changes, usually better off as an "S" corp., if can meet the ownership restrictions.	Limited disclosure of owners, and documentation (organization and annual), lower filing fees, can assign management to a nonmember.

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