

Choosing a business entity

Entity	Liability	Entity Tax Records	Deduction of Losses	Owner Wages	Transferring Ownership	Tax Form	Reasons to Choose this Entity	Reasons NOT to Choose this Entity
Sole Proprietor	Unlimited	The entity records are inseparable from the owners	Yes	No	Would sell assets	Schedule C of Form 1040	Ease of set-up	-Liability -Self-employment tax on all earnings -Multiple Owners
Single Person LLC	Limited by State Law Some states may not recognize another state's LLC	Entity must keep a separate checking account and separate records	Yes	No	Selling assets preferred	Schedule C of Form 1040	Sole proprietor tax treatment with limited liability in state of origin.	-Multiple Owners -Multistate Business
Partnership	Unlimited	Separate checking and records	Yes	No	Generally required to form a new Partnership	Separate Entity Form 1065	-More than on owner -Allocations not to be based on ownership percentages.	-Liability issues -Self-employment tax
LLC	Limited by State Law Some states may not recognize another state's LLC	Entity must keep a separate checking account and separate records	Yes	No	Selling assets preferred, however it is possible to sell LLC ownership.	Separate Entity Default is 1065, 1120 and 1120S. Also possibilities based on election.	-More than on owner -Allocations not to be based on ownership percentages. -Liability protection	-Self-employment tax
"S" Corporation	Limited in all States	Separate checking, separate records, may need a balance sheet	Yes	Yes	Easy to sell Stock, owner would prefer this option.	Form 1120S "S" status requires a form 2553 to be timely filed and accepted by IRS	-Limited liability -Loss pass-through -Lower self-employment tax liability	
"C" Corporation	Limited in all States	Separate checking and records required. A balance sheet may also be required. Double tax on Dividends	No-Losses are locked in the corporation but may be carried forward to offset future profits.	Yes	Easy to sell the stock.	Form 1120	-Liability protection -Need to retain profits in corporation	Possible excessive officer compensation challenge by the IRS or double taxation