

Business Entities Comparison Chart



Ken-Mar Tax, Inc.
tax preparation and financial services

Entity	Summary	Filing Form	Tax Treatment	Advantage of Entity	Disadvantage of Entity
Single-Member LLC / Sole Proprietorship	<ul style="list-style-type: none"> For one-owner businesses Simplest form of business structure 	<ul style="list-style-type: none"> Schedule C for businesses Schedule E for rentals 	<ul style="list-style-type: none"> Net income tax based on individual tax rates 	<ul style="list-style-type: none"> Least administrative burdens No payroll returns for business owner No separate business tax returns to file 	<ul style="list-style-type: none"> Owners subject to self-employment taxes (Social Security and Medicare taxes)
Partnership	<ul style="list-style-type: none"> Partnerships are business owned by multiple people If general partnership, all partners have unlimited liability If limited partnership, <i>only</i> general partners have unlimited liability Multi-member LLC is treated as a partnership for tax purposes 	<ul style="list-style-type: none"> Form 1065 	<ul style="list-style-type: none"> Partners (the owners) receive K-1s that report their income from the partnership and they, in turn, report that income on their Form 1040s 	<ul style="list-style-type: none"> Partners get benefit of pass-through taxation Partners can deduct partnership losses on their personal returns 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Form 1120S 	<ul style="list-style-type: none"> Shareholders receive K-1s with their portion of net income and report that income on their Form 1040s 	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Entity distinct and separate from its shareholders C corporations are not flow-through entities; the income is taxed at the corporate level 	<ul style="list-style-type: none"> Form 1120 	<ul style="list-style-type: none"> Corporation pays federal tax of 21 percent on net income Shareholder suffers double taxation on dividends 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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