

Which legal structure is right for my business?

	Sole Proprietor	DBA	LLC	Corporation - C Corp	Corporation - S Corp	Partnership - General (GP) or Limited (LP)
Typically used by	Individual	Used by owners that either want to do business under a particular name or do not want to use their own personal name.	Owners that want pass through for taxation purposes, liability protection of a corporation but less formalities than a corporation. Ideal for passive income and real estate investments.	Owners who want liability protection with maximum tax and ownership flexibility.	Owners who want liability protection with a corporation and a simple pass through for income tax.	Two or more individuals or entities that want to come together to do business as the same entity.
Type of owner	US Citizens and resident individuals	Owner	Members	Shareholders	Shareholders (with restrictions)	Partner
Liability - Personal	Owner personally liable for all business debts.	Owner personally liable for all business debts.	Limited to member capital contribution	Limited to shareholder capital contribution	Limited to shareholder capital contribution	GP - jointly and severally LP - limited to capital contribution
Documentation requirements and formalities	None	Must renew and publish (where required.)	Annual State report	Requires formal board and shareholder meetings and minutes. Requires Annual State reports	Requires formal board and shareholder meetings and minutes. Requires Annual State reports	Partnership Agreement - Oral or written. (Preferably written with a buy/sell agreement.)
Tax requirements	Income/loss passed through to owner	Income/loss passed through to owner, shareholders or members	No tax at entity level Income/loss is passed through to members. May opt to be taxed as C or S Corporation.	Taxed at entity level. If dividends paid to shareholders, then taxed at individual level.	No tax on the S Corp Income/loss passed through to shareholders	Income/loss passed through to partner(s). Avoids double taxation.

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Tax reporting	IRS Schedule C	IRS Schedule C If partnership Schedule K-1	Income on Form 1040, Schedule C OR Form 1065 & Schedule K-1	IRS Form 1120 Salaries on W-2 Profit distribution on Form 1099-DIV	IRS Form 1120S Salaries on W-2 Profit on Schedule K-1	Income on Form 1065 & Schedule K-1 Salaries on W-2
Operation and Management	Owner	Owner	Flexibility similar to a partnership. An operating agreement outlines management duties. May have Board of Managers.	Managed by Directors, elected by Shareholders.	Managed by Directors, elected by Shareholders.	Managed by partners.
Legal formation requirements		State or local county filing required - generally before using the DBA. Some States or Counties require a notice to be published in a local newspaper and proof of completion.	State filing	State filing	State filing Subchapter S election with IRS (typically req'd within 60 days of forming.)	None - the partnership begins as soon as you start doing business together (hence the reason a buy/sell agreement is recommended.)

**Note: This document is not written nor intended to provide legal advice. Legal advice from a qualified attorney is recommended.
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