

One of the most frequently asked question we hear is, “Which business entity is right for my business?” Although we cannot give you legal advice and make that decision for you, we can offer you valuable information so you can make an informed decision based on your business needs.

Business Entity Comparison Chart

Comparison Factors	Sole Proprietorship (SP)	General Partnership (GP)	Limited Liability Company (LLC)	S Corporation (S Corp)	C Corporation - General Stock (C Corp)
Business formation	City tax license may be required. No state filing required	No state filing required. Some states allow GP’s to file at state agency. An Agreement between two or more parties. Partnership agreement should be created	Required to file formation document with the State filing agency. Most states require an Operating Agreement	Required to file formation document with the State filing agency. Most states require annual meetings and bylaws. Must elect S status through the IRS, additional filing required	Required to file formation document with the State filing agency. Most states require annual meetings and bylaws
Size	One person ownership	Two or more person ownership	Most states allow single member LLC’s but some require 2 or more members	Up to 75 members/ shareholders	Unlimited
Length of Existence	Sole proprietorship either ceases doing business or dies	Depending upon partnership agreement. Typically death or withdrawal of a partner dissolves the GP	Some states allow LLC’s to have a perpetual existence. Others depend upon the state’s requirements	Perpetual	Perpetual
Liability	SP has unlimited liability and can lose personal assets	General Partners are equally liable or less the partnership agreement states otherwise	Members are not liable for debts accrued by the company or less a member secured the debt with a personal asset	Shareholders are typically not liable for the debts of the corporation. Some officers can be held liable if there is fraud or severe mismanagement.	Shareholders are typically not liable for the debts of the corporation. Some officers can be held liable if there is fraud or severe mismanagement .
Operational Procedures	Easiest with few legal requirements	Typically GP’s have few legal requirements	Most states have some formal requirements like annual reports but are typically less than a corporation	Annual meetings, filings, and reporting required. Board of Directors and Officers must be maintained.	Annual meetings, filings, and reporting required. Board of Directors and Officers must be maintained
Start up cost	Cost of business tax license	Cost of business tax license	State filing fee is required.	State filing fee is required.	State filing fee is required.
Management	SP is in complete control of managing operations	Or less the partnership agreement states otherwise, each partner has equal management authority	Management is outlined in the LLC’s Operating Agreement.	Officers manage day to day corporate activities. Directors manage the officers and the overall company. Directors are elected and therefore managed by the shareholders	Officers manage day to day corporate activities. Directors manage the officers and the overall company. Directors are elected and therefore managed by the shareholders
Taxation	Taxed Once	Taxed Once	Taxed Once	Taxed Once	Double; both the corporation and shareholders are taxed
Pass through taxation for both income and loss	Yes	Yes	Yes	Yes	No
Interest Transferability	No. Or less business is sold to another party	No.	Depends upon the operating agreement	Yes. Some IRS regulations on stock ownership	Shares of stock are easily transferred
Raising Capital	Hard to get outside capital. Owner typically contributes all funds	Partners contribute capital and more capital can be raised by adding new partners	Some operating agreements allow interests to be sold	S Corps can sell stock to raise capital	C Corps can sell stock to raise capital
Dissolution	Easiest	Easy	Complex. Requires filing dissolution document with state filing agency. Some states require a tax clearance prior to dissolution.	Most Complex. Requires filing dissolution document with state filing agency. Some states require a tax clearance prior to dissolution.	Most Complex. Requires filing dissolution document with state filing agency. Some states require a tax clearance prior to dissolution.
Examples	Mom & Pop Ice cream shop	Land Developer	Real Estate Investment Property. Motion Picture. Any type of business depending upon specific state restrictions.	Small business or Family business such as a print shop, Pizza Parlor, or Interior Design.	Public Corporation. Software company, telecommunications company, etc.