

A **Strategy Overview** Guide
for Business Owners

Comparison of business entities

Business Planning Strategies



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Comparison of business entities

	C Corporation	S Corporation	Partnership	Limited Liability Company (LLC)
Entity Name	"Corporation," "Company," "Incorporated," or abbreviation must appear.	"Corporation," "Company," "Incorporated," or abbreviation must appear.	"Limited Partnership," "Limited," "Ltd.," or "L.P." must appear if a limited partnership.	"Limited," "Ltd.," "LC," or "LLC" generally must appear.
Federal income tax filing	IRS Form 1120.	IRS Form 1120S.	IRS Form 1065.	IRS Form 1065. (If election to be taxed as a partnership.)
Liability for entity debts and obligations	No shareholder liable. (Officers can be held liable if found to have committed fraud or severe mismanagement.)	No shareholder liable. (Officers can be held liable if found to have committed fraud or severe mismanagement.)	General partner liable. Limited partners generally protected.	No member liable.
Participation in management by all members	Yes.	Yes.	No. Participation by limited partners generally restricted to maintain limited liability.	Yes. (But may cause member to be subject to self-employment tax.)
Ownership restrictions	No restrictions.	100 member limit. Significant restrictions on types of members. Only individuals, resident aliens, estates, certain charitable organizations and qualifying trusts.	At least two members. No restrictions on types of persons who may be members.	One member LLC allowed but disregarded for federal tax purposes. At least two members required to be taxed as a partnership. No restrictions on types of persons who may be members.
Types of ownership interests	No restrictions.	Single class of stock only, but there may be differences in voting rights.	No restrictions.	No restrictions.
Dissolution event	Dissolution ordinarily does not result from changes in shareholder ownership.	Dissolution ordinarily does not result from changes in shareholder ownership.	Death, retirement, resignation, expulsion or bankruptcy of general partner generally results in dissolution unless remaining general partner(s) or all remaining partners agree to continue business.	Death, retirement, resignation, expulsion or bankruptcy of any member generally results in dissolution unless remaining members agree to continue.
Transferability of interests	Restrictions are imposed by securities laws and by a shareholders' agreement, if any.	Restrictions are imposed by securities laws and by a shareholders' agreement, if any.	Restrictions are imposed by state law, by securities law and generally by the partnership agreement.	Restrictions are imposed by state laws, securities laws and LLC operating agreement, if any.
Federal corporate income tax applicable	Yes.	Generally no. Possible entity-level tax on excess net passive income and on built-in gains in the case of former C Corporations.	No.	No, if taxed as a partnership.*

* Limited liability company owners elect whether to be taxed as a partnership, an S Corporation, a C Corporation, or a sole proprietor if there is only one individual owner.

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Comparison of business entities (continued)

	C Corporation	S Corporation	Partnership	Limited Liability Company (LLC)
Contributions of appreciated or debt-encumbered property	Taxable, unless shareholder has control (80% voting power) immediately after the contribution.	Taxable, unless shareholder has control (80% voting power) immediately after the contribution.	Nontaxable, unless the contribution results in net reduction of partner's liabilities in excess of partner's basis.	Nontaxable, unless the contribution results in net reduction of member's liabilities in excess of member's basis in LLC.
Special allocations of income, gain, loss, etc.	Not permitted.	Not permitted. Pro rata allocations only due to single-class-of-stock requirement.	Permitted.	Permitted if taxed as a partnership.
Inclusion of entity debt in basis for interest	No. Tax basis of a shareholder's stock does not include any share of entity debt, even if the debt is guaranteed by the shareholder.	No. Tax basis of a shareholder's stock does not include any share of entity debt, even if the debt is guaranteed by the shareholder. A shareholder receives basis for loans the shareholder makes to the corporation.	Yes. Partnership debt is allocated among members and included in tax basis for partnership interests accordingly. Recourse debt allocated only to general partners.	Yes. LLC debt is allocated among members under partnership rules and included in tax basis for LLC interests accordingly. Additional basis may be used to offset LLC deductions/losses.
Deductibility of losses	No.	Shareholders may deduct corporation's losses only to the extent of tax basis in stock which does not include any portion of the corporation's debt.	Partners may deduct partnership's losses only to the extent of tax basis in partnership interest which includes the allocable share of debt.	Members may deduct LLC's losses only to the extent of tax basis in LLC interest which includes the allocable share of LLC debt.
Cash distributions	Taxable to shareholder as dividend.	Generally, nontaxable to the extent of the shareholder's tax basis in stock.	Nontaxable to the extent of a partner's tax basis in partnership interest.	Nontaxable to the extent of a member's tax basis in LLC interest.
Distributions of property (other than cash)	Distributions of appreciated property treated as sale by the corporation and causes recognition of gain at corporate level.	Distributions of appreciated property treated as sale by the corporation and causes pro rata recognition of gain at shareholder level.	Generally, no recognition of gain or loss until partner sells or disposes of the distributed property. Exception for distribution that is deemed to include partner's share of unrealized receivables or substantially appreciated inventory items.	Generally, no recognition of gain or loss until member sells or disposes of the distributed property. Exception for distribution that is deemed to include member's share of unrealized receivables or substantially appreciated inventory items.
Liquidation	Taxable to both corporation and shareholders.	Generally, nontaxable at corporate level but taxable at shareholder level due to pass-through of corporate tax items.	Nontaxable to extent of a partner's tax basis in partnership.	Nontaxable to extent of a member's tax basis in LLC.
Basis adjustment on transfer of interest	Basis adjustment of C Corporation assets not permitted.	Basis adjustment of S Corporation assets not permitted.	Election permitted to adjust basis of partnership assets to reflect transferee's basis in partnership interest.	Election permitted to adjust basis of LLC assets to reflect transferee's basis in LLC interest.

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