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## ENTITY COMPARISON

### **Sole Proprietorship:**

1. Limited Liability: No limited liability for owner.
2. Number of Owners: One
3. Type of Participation: Owner actively participates in business.
4. Federal Income Tax Rates: Individual tax rates ranging from 15% to 39.6%.
5. Employment Tax: All of owner's earnings are subject to the self employment tax.
6. Corporate Income Tax: Owner's earnings are not subject to any corporate income tax.
7. Recommended Use: Generally, small business owners who with little or no net income (after business expenses) and do not have any liability concerns.

### **S-Corporation:**

1. Limited Liability: Yes.
2. Number of Owners: One to seventy-five owners.
3. Type of Participation: Owners may be an active participant or a passive owner.
4. Federal Income Tax Rates: Individual tax rates ranging from 15% to 39.6%. Each owner pays tax at their personal tax level.
5. Employment Tax: This entity structure allows owner(s) to receive a reasonable salary for their active participation which is subject to employment tax, and the remaining income earned by that owner may be treated as passive income. Passive owners' income earned is not subject to employment tax. If the company is profitable, owner(s) must take a salary.
6. Corporate Income Tax: Generally subject to state corporate tax. Income and or losses pass through to the owner(s) at their individual tax rates.
7. Recommended Use: For individual business owners, partners and many 1099 "employees" who receive a reasonable salary and want to receive the remainder of their income from the S-Corporation as passive income, which is exempt from the employment tax.
8. Requirements: Must file a form 2553 with the IRS in a timely fashion to receive this tax status. Some states (i.e. California) require notification of Sub S status.

### **C-Corporation:**

1. Limited Liability: Yes.
2. Number of Owners: One or more owners.
3. Type of Participation: This entity structure allows owner(s) to receive a reasonable salary for their active participation which is subject to employment tax, and the remaining income distributed to that owner may be treated as passive income. Passive owners' income earned is not subject to employment tax.
4. Federal Income Tax Rates: Corporate Tax Rate of 15% to 30% on the corporation's net income. Individual tax rates of 15% to 39.6% for salary paid.
5. Employment Tax: All salaries paid, including to an owner, are subject to employment tax.
6. Corporate Income Tax: Generally subject to state corporate tax.
7. Recommended Use: For specialized clients who plan to take a company public or who need a corporate structure for minor children.

**LLC - Taxed As A Sole Proprietorship:**

1. Limited Liability: Limited Liability for owner.
2. Number of Owners: One
3. Type of Participation: Owner actively participates in business.
4. Federal Income Tax Rates: Individual tax rates ranging from 15% to 39.6%.
5. Employment Tax: All earnings are subject to the self employment tax.
6. Corporate Income Tax: Subject to tax in some states.
7. Recommended Use: For small business owners who have liability concerns, but do not earn enough net income to need the active-passive income split of the S-Corporation.

**LLC - Taxed As A Partnership, With All Active Partners:**

1. Limited Liability: Yes.
2. Number of Owners: Two or more.
3. Type of Participation: All owners actively participate in the business.
4. Federal Income Tax Rates: Individual tax rates ranging from 15% to 39.6%. Each owner pays tax at their personal tax level.
5. Employment Tax: All earnings are subject to the self employment tax.
6. Corporate Income Tax: Subject to tax in some states.
7. Recommended Use: For partners who net less than \$40,000 to \$50,000 annually, who want maximum flexibility in ownership.

**LLC - Taxed As A Partnership, With Active And Passive Partners:**

1. Limited Liability: Yes.
2. Number of Owners: Two or more.
3. Type of Participation: Owners may be an active participant or a passive owner.
4. Federal Income Tax Rates: Individual tax rates ranging from 15% to 39.6%. Each owner pays tax at their personal tax level.
5. Employment Tax: Earnings by an active participant are subject to employment taxation, but earnings by a passive owner are not.
6. Corporate Income Tax: Subject to tax in some states.
7. Recommended Use: Depending on the State, this structure offers the same advantages as a limited partnership, but with greater flexibility.

**LLC - Taxed As A C or S Corporation:**

1. Limited Liability: Yes.
2. Number of Owners: One or more.
3. Type of Participation: Owners/members may be an active participant or a passive owner.
4. Federal Income Tax Rates: Depending on C & S status.
5. Employment Tax: Same as C or S corporations.
6. Corporate Income Tax: Subject to tax in some states.
7. Recommended Use: Speak to your tax professional

**Limited Partnership:**

1. Limited Liability: Limited Liability for limited partners.
2. Number of Owners: Two or more.
3. Type of Participation: Owners may be an active participant or a passive owner.
4. Federal Income Tax Rates: Individual tax rates ranging from 15% to 39.6%. Each owner pays tax at their personal tax level.
5. Employment Tax: Earnings by an active participant are subject to employment taxation, but earnings by a passive owner are not.
6. Corporate Income Tax: Exempt from income tax in most states.
7. Recommended Use: For more complex business structures or a family business. LLCs are now most often used in place of limited partnerships