

JAMES CHESTNUT & ASSOCIATES, INC.

NONPROFIT AND TAX-EXEMPT CONSULTANTS

www.JAMESCHESTNUT.com

15334 TEAL PARK DRIVE
HUMBLE, TEXAS 77396

Phone (281) 441-4431

support@jameschestnut.com

Fax (281) 441-4927

Business Entity Comparison Chart

	Limited Liability Company	Sole Proprietorship / General Partnership	S-corporation	C-corporation
Formation	State filing required.	No filing required, unless doing business under an assumed name.	State filing required; Subchapter S election typically must be made within 60 days of formation	State filing required.
Personal Liability	Members are not typically liable for the debts of the LLC.	Owners have unlimited liability.	Shareholders are typically not personally liable for corporate debts.	Shareholders are typically not personally liable for corporate debts.
Formalities and Record-Keeping	Formal meetings and minutes are not required; however annual state reports are required.	Relatively few legal requirements.	Formal board and shareholder meetings and minutes are required, and annual state reports required.	Formal board and shareholder meetings and minutes are required, and annual state reports required.
Management and Operation	Management is flexible, like a partnership; typically, an operating agreement outlines management duties. A board of managers is optional.	Sole proprietor has full control. Partnerships have a flexible management and operational structure.	Managed by the directors, who are elected by the shareholders; directors appoint officers, who run the day-to-day operation.	Managed by the directors, who are elected by the shareholders; directors appoint officers, who run the day-to-day operation.
Taxation	By default, there is no tax at the entity level; income/loss is passed through to members, like a sole proprietorship or partnership.	Not a separate taxable entity. Income/loss is passed through the owners.	No tax at the entity level. Income/loss is passed through to the shareholders.	Taxed at the entity level. If dividends are distributed to shareholders, dividend income is taxed at the individual level.
Tax Reporting	See Sole Proprietorship/ General Partnership; LLCs may also elect to be taxed as a C- or S-corporation	Sole Proprietorships; All income is reported on Form 1040, Schedule C. Partnerships report income on Form 1065, with profit distributions on Schedule K-1.	S-corporations report income on Form 1120S, with salaries reported on Form W-2 and profit distributions on Schedule K-1.	C-corporations report income on Form 1120, with salaries reported on Form W-2 and profit distributions on Form 1099-DIV.
Recommended for:	Owners wanting the liability protection of a corporation with less corporate formalities, and the simplicity of pass-through taxation of income.	Owners wanting minimal formalities, maximum flexibility, and not worried about personal liability.	Owners wanting the liability protections of a corporation, with the simplicity of pass through taxation of income.	Owners needing maximum tax and ownership flexibility, combined with liability protection.