

DIFFERENT BUSINESS ENTITIES

Characteristic	Sole Proprietorship	C Corporations	S Corporations	General Partnership	Limited Partnership	LLC
CONTROL						
Ownership Rules	One owner	Unlimited number of shareholders allowed; no limit on stock classes	Up to 75 shareholders allowed; only one basic class of stock allowed	Unlimited number of general partners allowed	Unlimited number of general and limited partners allowed	Unlimited number of "members" allowed
Classes of Ownership Interests	N/A	Multiple classes are permitted	One class (differences in voting rights are permitted)	Multiple classes are permitted	Multiple classes are permitted	Multiple classes are permitted
Number of Owners	One	No restrictions	One to 75	At least two. May be taxable as a corporation if it has more than 500 members under the publicly traded partnership rules	At least two. May be taxable as a corporation if it has more than 500 members under the publicly traded partnership rules	No restrictions, but at least two to be considered a partnership for tax purposes. May be taxable as a corporation if it has more than 500 members under the publicly traded partnership rules

Types of Owners	N/A	Any	Ownership is limited to U.S. citizens and residents and to certain U.S. trusts. No corporate or partnership shareholders.	Any	Any	Any
TAXES						
Tax Treatment	Entity not taxed, as the profits and losses are passed through to the sole proprietor	Corporation taxed on its earnings at the corporate level and the shareholders have a further tax on any dividends distributed ("double taxation")	Entity generally not taxed as the profits and losses are passed through to the shareholders ("passthrough" taxation)	Entity not taxed as the profits and losses are passed through to the general partners	Entity not taxed, as the profits and losses are passed through to the general and limited partners	Entity not taxed (unless chosen to be taxed), as the profits and losses are passed through to the members
Deductibility of Losses	Deductible by proprietor	Deductible by corporation	Generally deductible by shareholder; liabilities do not increase basis for deducting losses except for direct loans from shareholder	Generally deductible by partner to extent of basis; liabilities may increase basis for deducting losses	Generally deductible by partner to extent of basis; liabilities may increase basis for deducting losses	Generally deductible by member to extent of basis; liabilities may increase basis for deducting losses
Special Allocation of Income/Loss	Not permitted	Not applicable	Not permitted	Permitted as long as there is substantial economic effect	Permitted as long as there is substantial economic effect	Permitted as long as there is substantial economic affect

Passive Losses	May not offset active or portfolio income	May offset active income but not portfolio income of closely held corporation; may not offset active or portfolio income of personal service corporation	May not offset active or portfolio Income (limits apply at shareholder level)	Cannot offset active or portfolio income (limits apply at partner level)	Cannot offset active or portfolio income (limits apply at partner level)	Cannot offset active or portfolio income (limits apply at member level); unclear if members treated as limited partners
Tax Year	Must use tax year of proprietor	May select any fiscal year if not a personal service corporation	Generally must use calendar year or make Sec. 444 election	Generally must use fiscal year of majority interest partners or make Sec. 444 election	Generally must use fiscal year of majority interest partners or make Sec. 444 election	Generally must use fiscal year of majority interests partners or make Sec. 444 election
Qualified Retirement Plans for Employee/Owner	Payments to a Keogh Plan or SEP are deductible	Payments are deductible if plan is nondiscriminatory	Payments are deductible if plan is nondiscriminatory	Payments to a Keogh Plan or SEP are deductible	Payments to a Keogh Plan or SEP are deductible	Payments to a Keogh Plan or SEP are deductible
Distribution to Owner	Nontaxable	Non deductible by corporation; generally ordinary income to shareholder; distribution of appreciated property results in gain recognition by corporation	Nontaxable to extent of basis in stock; distribution of appreciated property results in gain recognition	Nontaxable to extent of basis in partnership; disproportionate distribution of Section 751 assets may trigger gain	Nontaxable to extent of basis in partnership; disproportionate distribution of Section 751 assets may trigger gain	Nontaxable to extent of basis in partnership; disproportionate distribution of Section 751 assets may trigger gain

Gain on Sale of Interest	Capital and/or ordinary	Capital (unless collapsible corporation rules apply); up to 50% of gain from qualified small business stock may be excluded	Capital (unless collapsible corporation rules apply)	Capital (unless collapsible partnership rules apply)	Capital (unless collapsible partnership rules apply)	Capital (unless collapsible corporation rules apply)
Loss on Sale of Interest	Capital and/or ordinary	Ordinary to extent of Section 1244 stock; otherwise, loss is capital	Ordinary to extent of Section 1244 stock; otherwise, loss is capital	Generally capital	Generally capital	Capital
Charitable Contributions	Deductible by individual subject to certain percentage limits	Deductible by corporation subject to certain percentage limits	Passed through to shareholder; limits apply at shareholder level	Passed through to partner; limits apply at partner level	Passed through to partner; limits apply at partner level	Passed through to member; limits apply at member level

<p>Taxation of Contributions</p>		<p>Receipt of stock for cash, promissory notes, or other property is nontaxable if 80% control test satisfied unless shareholder relieved of debt in excess of basis or the corporation is an investment company. Receipt of stock for services is taxable as compensation.</p>	<p>Receipt of stock for cash, promissory notes, or other property is nontaxable if 80% control test satisfied unless shareholder relieved of debt in excess of basis or the corporation is an investment company. Receipt of stock for services is taxable as compensation.</p>	<p>Receipt of partnership interest for cash, promissory notes, or other property is generally nontaxable unless disguised sale, partner relieved of debt in excess of basis, or partnership would be investment company if incorporated. Receipt of partnership interest (share of partnership capital as opposed to only a share of partnership profits) for services is taxable as compensation for services rendered.</p>	<p>Receipt of partnership interest for cash, promissory notes, or other property is generally nontaxable unless disguised sale, partner relieved of debt in excess of basis, or partnership would be investment company if incorporated. Receipt of partnership interest (share of partnership capital as opposed to only a share of partnership profits) for services is taxable as compensation for services rendered.</p>	<p>Receipt of membership interest for cash, promissory notes, or other property is generally nontaxable unless disguised sale, member relieved of debt in excess of basis, or LLC would be investment company if incorporated. Receipt of membership interest (share of LLC capital as opposed to only a share of LLC profits) for services is taxable as compensation for services rendered.</p>
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<p>Sale of Ownership Interest</p>		<p>Capital gain. A non-corporate shareholder may exclude 50% of gain from the sale or exchange of qualified small business stock held for more than five years. A shareholder may rollover the gain on publicly-traded stock into specialized small business investment company stock and may rollover the gain on qualified small business stock to another qualified small business stock. Gain from the sale is generally eligible for the installment method.</p>	<p>Capital gain. Capital gain attributable to collectibles is subject to higher capital gains rates. Gain from sale is generally eligible for the installment method.</p>	<p>Ordinary income to extent of unrealized receivables and inventory; remainder capital gain. Capital gain attributable to collectibles and Section 1250-property is subject to higher maximum capital gains rates. Sale of 50% or more of partnership within 12 months will cause deemed termination and reconstitution of partnership. Gain from sale is generally eligible for the installment method, except for gain attributable to unrealized receivables and inventory, which must be reported immediately.</p>	<p>Ordinary income to extent of unrealized receivables and inventory; remainder capital gain. Capital gain attributable to collectibles and Section 1250-property is subject to higher maximum capital gains rates. Sale of 50% or more of partnership within 12 months will cause deemed termination and reconstitution of partnership. Gain from sale is generally eligible for the installment method, except for gain attributable to unrealized receivables and inventory, which must be reported immediately.</p>	<p>Ordinary income to extent of unrealized receivables and inventory; remainder capital gain. Capital gain attributable to collectibles and Section 1250 property is subject to higher maximum capital gains rates. Sale of 50% or more of LLC within 12 months will cause deemed termination and reconstitution of LLC. Gain from sale is generally eligible for the installment method, except for gain attributable to unrealized receivables and inventory, which must be reported immediately.</p>
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LIABILITY

Transferability Interests	Freely transferable	Generally freely transferable; can be restricted through buy/sell agreements	Generally freely transferable; can be restricted through buy/sell agreements	Generally subject to partners' approval	Generally subject to partners' approval	Generally subject to members' approval
Personal Liability of the Owners	Unlimited personal liability for the obligations of the business	Generally no personal liability of the shareholders for the obligations of the corporation	Generally no personal liability of the shareholders for the obligations of the corporation	Unlimited personal liability of the general partners for the obligations of the business	Unlimited personal liability of the general partners for the obligations of the business; limited partners generally have no personal liability unless they engage in management	Generally no personal liability of the members for obligations of the business
Effect of Cash Distribution	No effect	Taxable as dividends to the extent of corporation's earnings and profits and then nontaxable to the extent of shareholders's tax basis in stock	Generally nontaxable to the extent of shareholder's tax basis in stock	Generally nontaxable to the extent of partner's tax basis in partnership interest	Generally nontaxable to the extent of partner's tax basis in partnership interest	Generally nontaxable to the extent of member's tax basis in LLC interest
Taxation of Liquidation	Yes	Taxable to both corporation and shareholders	Generally nontaxable at corporate level and taxable at shareholder level through flowthrough of corporate tax items	Nontaxable unless actual or deemed cash distribution exceeds tax basis in partnership interest	Nontaxable unless actual or deemed cash distribution exceeds tax basis in partnership interest	Nontaxable unless actual or deemed cash distribution exceeds tax basis in LLC interest

Self-Employment Tax	Yes	No	No	Yes	Yes for general partner but not for limited partners	Unclear
Texas Franchise Tax Liability	No	Yes	Yes	No	No	Yes
Reasonable Compensation Limits	Not applicable	Applicable to owners	Applicable to owners	Applicable where capital is a material income producing factor	Applicable where capital is a material income producing factor	Applicable where capital is a material income producing factor

ADMINISTRATION

Name of Entity	No requirements	Must contain "corporation," "company," "incorporated" or abbreviation thereof	Must contain "corporation," "company," "incorporated" or abbreviation thereof	No requirements	Must end with "Limited Partnership," "Ltd.," "L.P.," or "Limited"	Must contain "Limited Liability Company," "Limited Company," "L.L.C.," "LLC," "L.C.," or "LC"; additional requirements for professionals; permitted abbreviations for "Limited" are "Ltd." and "LTD," and "Company" may be abbreviated "Co."
Key Documents Needed for Formation	DBA filing	Articles of Incorporation Bylaws Organizational Board Resolutions Articles of Incorporation	Articles of Incorporation Bylaws Organizational Board Resolutions Articles of Incorporation	General Partnership Agreement Local filings if partnership holds real estate	Limited Partnership Certificate Limited Partnership Agreement	Articles of Organization Operating Agreement

		Stock Certificates	Stock Certificates			
Management of the Business	Sole proprietor manages the business	Board of Directors has overall management responsibility and officers have day-to-day responsibility	Board of Directors has overall management responsibility and officers have day-to-day responsibility	The general partners have equal management rights, unless they agree otherwise	The general partner manages the business, subject to any limitations of the Limited Partnership Agreement. If a limited partner engages in management, the limited partner becomes a general partner for liability purposes.	The operating Agreement sets forth how the business is to be managed - a Manager can be designated to manage the business
Capital Contributions	Sole proprietor contributes whatever capital needed	Shareholders typically purchase stock in the corporation, either common or preferred	Shareholders typically purchase stock in the corporation, but only one class of stock is allowed	The general partners typically contribute money or services to the partnership, and receive an interest in profits and losses	The general and limited partners typically contribute money or services to the limited partnership, and receive an interest in profits and losses	The members typically contribute money or services to the LLC, and receive an interest in profits and losses
Life Insurance for Employee/Owner	Premiums are not deductible	Premiums for first \$50,000 group-term life are deductible and not taxable to employee	Statute unclear, assume deductible as compensation	Premiums are not deductible	Premiums are not deductible	Premiums are not deductible

Conduct of Business in Other States	Usually no special qualification requirements	Most states have corporation qualification provisions	Most states have corporation qualification provisions	Usually no special qualification requirements	Most states have foreign limited partnership qualification provisions	Small minority of states (less than 10) do not have foreign LLC qualification provisions
Form of Contribution	No special requirements	Cash, promissory notes, services performed or to be performed, or securities	Cash, promissory notes, services performed or to be performed, or securities	No special requirements	Cash, property, services rendered, promissory note or other obligation	Cash, property, services rendered, promissory note or other obligation to pay cash or transfer property
Term	Lifetime of owner	Typically perpetual unless limited in articles of incorporation	Typically perpetual unless limited in articles of incorporation	Typically limited by partnership agreement	Typically limited by partnership agreement	May be perpetual
Dissolution on Death, Withdrawal, etc. of Owner	Yes	No	No	Triggers event of withdrawal, partnership may wind up	NO for limited partners, yes for general partners unless agreement provides otherwise (possible tax issue)	Yes, unless regulations provide otherwise (possible tax issue)
Transferability of Interests with Full Substitution of Transferee	Assets of business may be transferred	Yes, subject to agreements among shareholders	Yes, subject to agreements among shareholders	Only if permitted by partnership agreement	Only if permitted by partnership agreement (possible tax issue if freely transferrable)	Only if permitted by articles of organization or regulations (possible tax issue if freely transferrable)

Fiscal Year	Calendar	No restrictions	Generally calendar	Generally calendar	Generally calendar	Generally calendar
Applicability of Securities Laws	No	Shares of stock are securities	Shares of stock are securities	General partnership interests are generally not treated	Limited partnership interests are treated as securities	Presumption is that interests are securities (it may be
Organizational Costs	N/A	The filing fee in Texas for a Texas corporation is \$300*	The filing fee in Texas for a Texas corporation is \$300	The filing fee in Texas for a Texas limited partnership is \$750	The filing fee in Texas for a Texas limited partnership is \$750	The filing fee in Texas for a Texas LLC is \$200
*State fees may change. Valid as of 6/1/04.						

