Guide to Business Entity Structures

An overview of ownership, liability, and tax implications across common entity types.

Quick Reference & Summary

Business Type	Ownership	Liability	Taxation Overview
Sole Proprietorship	One Person	Unlimited Personal	Self-Employment Tax (Personal Tax 1040)
Partnerships	Two or More	Unlimited Personal	Self-Employment Tax (Except Limited Partners)
Limited Liability Company (LLC)	One or More	Protected (Not liable)	Self-Employment / Corporate Tax
C-Corporation	One or More	Protected (Not liable)	Corporate Tax
S-Corporation	1 to 100 US-Shareholders	Protected (Not liable)	Pass-Through (State Income & Personal Tax)
Non-Profit Corporation	One or More	Protected (Not liable)	Tax Exempt (Profits non-distributable)

Detailed Entity Profiles

1. Sole Proprietorship (SCH-C & SCH-E)

Sole proprietorships can be a good choice for low-risk businesses and owners who want to test their business concept with minimal formal setup.

Ownership:	One Person
Liability:	Unlimited Personal Liability

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Taxes:	Self-Employment Tax (Social Security and Medicare taxes – Personal Tax 1040)

2. Partnerships

Partnerships can be a good choice for businesses with multiple owners, professional groups (like attorneys), and groups who want to test their business idea before forming a more formal business entity.

Ownership:	Two or More People
Liability:	Unlimited Personal Liability
Taxes:	Self-Employment Tax (Social Security and Medicare taxes Except for Limited Partners – Personal Tax 1040)

3. Limited Liability Company (LLC)

LLCs can be a good choice for medium- or higher-risk businesses, as well as owners with important personal assets they want protected from business liabilities.

Ownership:	One or More People
Liability:	Owners are not personally liable
Taxes:	Self-Employment Tax (Social Security and Medicare taxes Except for Limited Partners – Personal Tax 1040 – Corporate Tax)

4. C-Corporation

Corporations can be a good choice for medium- or higher-risk businesses, those that need to raise outside capital, and businesses that plan to 'go public' or eventually be sold.

Note on Taxation: The downside of C Corporations is that they are subject to 'double taxation.' The corporation is taxed on entity-level profits, and then shareholders are taxed again on dividend distributions. The dividend distributions are not deductible to the entity, hence creating the double taxation issue.

Ownership:	One or More People
Liability:	Owners are not personally liable

Taxes:	Corporate Tax Federal & State Tax

5. S-Corporation

An S Corporation may be the best bet for businesses seeking pass-through taxation while retaining corporate protections. There are restrictions on the ownership structure; for example, S Corporations are limited to 100 US citizen shareholders, which might be a limitation for some.

Tax Advantages: As a pass-through entity, an S Corporation doesn't pay taxes on income at the corporate level; instead, income passes through to the business owners. As a result, S Corporations can benefit from the 20 percent pass-through deduction as well, though high earners may be phased out. S Corporations are generally favored by certain professions such as doctors, dentists, and certain types of consultants.

Ownership:	One or More People (Limited to 100 Shareholders)
Liability:	Owners are not personally liable
Taxes:	State Income Tax - Personal Tax

6. Non-Profit Corporation

Formed for religious, charitable, educational, literary, or scientific purposes. Profits must be reinvested back into the organization's mission.

Ownership:	One or More People
Liability:	Owners are not personally liable
Taxes:	Tax Exempt (Corporate profits cannot be distributed)