DIFFERENT BUSINESS ENTITIES

What are Five Common Types and Which is Right for You?

C Corporation

Owners own shares of stock which represent equity and voting rights. "Double taxation" entity is taxed on income, then shareholders are individually taxed on distributions. Beneficial for IRS audits. By laws are necessary. Must have a board of directors who manage day-to-day operations.

S Corporation

Like C Corporations, owners have shares of stock, but have pass-through taxation like an LLC. Shareholders are taxed on their allocated income. The corporation cannot have more than 100 shareholders to be considered an S Corp, and it must be a closely held corporation (i.e. one that does not have publicly traded shares.)

Limited Liability Company

Members (aka owners) enjoy limited liability from potential business disputes. Company has pass-through taxation, meaning profits flow through to owners, who are taxed on income. Can elect to be treated as a C-Corp for tax purposes (good for provisioning centers due to 280E). Must have operating agreement if more than 1 member. Most flexible type of entity.

Partnerships

A partnership is an entity with 2 or more owners. There are multiple kinds of partnerships that allow for limited liability (LP, LLP, LLLP). Pass-through taxation - profits are taxed as income to owners.

Sole Proprietorship

A sole proprietor is a single person holding themselves out as a business. While this business entity is the simplest to start, it is also the most risky because there is no liability protection. Business profits are considered personal income, and you are taxed as a self-employed person.

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