

Common Legal Structures for Businesses

Type of Business	<u>Sole Proprietorship</u>	<u>Partnerships</u>		<u>Corporations</u>		<u>Limited Liability Company</u>
		<u>General</u>	<u>Limited</u>	<u>C Corp</u>	<u>S Corp</u>	
Definition	A business owned and operated by one person for profit.	Two or more people who jointly own or operate a business for profit.	One or more partners with limited liability and no rights of management.	An organization formed under state or federal law. An artificial entity separate from its owners.	An organization structured like a corporation but taxed like a partnership.	A business entity created by statute. The owners are called members. It is taxed like a partnership or an S Corp. It has limited liability like corporations.
Liability	The personal assets of the owner are at risk.	The personal assets of each partner are at risk.	The personal assets of general partners are at risk. A limited partner is liable only to the extent of his or her investment.	Limited to corporate assets, except for: 1. Personally guaranteed business debts; 2. Personal negligence or fault; or 3. Corporate form is found to be fraudulent.		Similar to rules for corporations.
Taxes	Profits are taxed once. Profit and loss are reported on the individual state and federal income tax returns of the owner.	Profits are taxed once. Each partner reports his or her share of the profit and loss on his or her individual state and federal income tax returns. Partnerships file an information return.		Profits are subject to double taxation, once at the corporate level and again at the shareholder level.	Profits are taxed once. Each shareholder reports his or her share of profit and loss on individual income tax returns. S Corp does not pay taxes, with some exceptions.	If the LLC is structured properly, each member reports his or her share of the profit and loss on his or her individual income tax returns. It is taxed like a partnership or an S corp. If the LLC is not structured properly, it is taxed like a C Corp.
Termination	Terminates at will.	Terminates by agreement or by death or withdrawal of partner, unless there is a partnership agreement to the contrary.		Continues until formal dissolution. Most stable form of business. Not affected by death or disaffiliation of shareholder.		May terminate by agreement or withdrawal of a member, depending upon operating agreement.