

## CHOICE OF ENTITY CHART

	<b>C Corporation</b>	<b>S Corporation</b>	<b>General Partnership</b>	<b>Limited Partnership</b>	<b>Limited Liability Company</b>
<b>Separate Taxable Entity</b>	Yes	No	No	No	Usually a partnership which is not a separate taxable entity
<b>Taxation of Income</b>	Taxed to corporation at Section 11 rates. Shareholders taxed upon distribution of dividends.	Directly to shareholders at their rates. If there is built-in gain the S corporation is taxed under Sections 1374-1375	Directly to Partners at their rates.	Directly to Partners at their rates.	Directly to Members at their rates.
<b>Contribution of Property in Exchange for Ownership Interest</b>	No gain or loss recognized if the transferors are in control (80% vote-value) of the company after the exchange. Possible exception if contributed property is subject to debt or entity is an investment company.	No gain or loss recognized if the transferors are in control (80% vote – value) of the company after the exchange. Possible exception if contributed property is subject to debt or entity is an investment company.	No gain or loss recognized unless the contributed property is subject to debt or entity is an investment company.	No gain or loss recognized unless the contributed property is subject to debt or entity is an investment company.	No gain or loss recognized unless the contributed property is subject to debt or entity is an investment company.
<b>Contribution of Services in Exchange for Ownership Interest</b>	Taxable	Taxable	Taxable. Possible exception if ownership interest is only a profits interest.	Taxable. Possible exception if ownership interest is only a profits interest.	Taxable. Possible exception if ownership interest is only a profits interest.
<b>Special Allocation of Income or Losses to Partners or Shareholders</b>	No	No	Yes, if has substantial economic effect.	Yes, if has substantial economic effect.	Yes, if has substantial economic effect.
<b>Distribution to Owner</b>	Any gain in distributed property taxable to the entity.	Distribution of appreciated property results in gain at shareholder level but shareholder gets basis increase.	No gain or loss recognized on distribution of property other than money until partner disposes of the property.	No gain or loss recognized on distribution of property other than money until partner disposes of the property.	No gain or loss recognized on distribution of property other than money until partner disposes of the property.
<b>Character of Income and Loss</b>	Not applicable	Character is passed through from entity.	Character is passed through from entity.	Character is passed through from entity.	Character is passed through from entity.
<b>Treatment of Liabilities with Regard to Basis</b>	Not applicable	No increase in basis for share of entity liabilities Increase in basis	Increase in basis for share of entity liabilities; decrease in share	Increase in basis for share of entity liabilities; decrease in share	Increase in basis for share of entity liabilities; decrease in share

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<b>Deduction of Losses on Owner's Tax Returns</b>	No. Deductible against corporate income. NOLs generally can be carried back 2 years and carried forward 20 years.	for debts to shareholders.  Yes. Deductible by shareholders to the extent of basis in stock and loans from shareholder to corporation. Deductibility may be limited by passive loss and at-risk rules.	of entity liabilities treated as a cash distribution.  Yes. Deductible by partner to the extent of basis. Deductibility may be limited by passive loss and at-risk rules.	of entity liabilities treated as a cash distribution.  Yes. Deductible by partners to the extent of basis in partnership. Deductibility may be limited by passive loss and at-risk rules.	of entity liabilities treated as a cash distribution.  Yes. Deductible by members to the extent of basis in partnership. Deductibility may be limited by passive loss and at-risk rules.
<b>Maximum Number of Owners</b>	No limit	Number of shareholders may not exceed 100	Limited by publicly traded partnership rules	Limited by publicly traded partnership rules	Limited by publicly traded partnership rules
<b>Trust may be an Owner</b>	Yes	Limited types of trusts may be shareholders	Yes	Yes	Yes
<b>Corporation may be an Owner</b>	Yes	No. Only individuals, estates and certain trusts may be shareholders.	Yes	Yes	Yes
<b>Limited liability Company may be an Owner</b>	Yes	No. Only individuals, estates and certain trusts may be shareholders.	Yes	Yes	Yes
<b>Partnership may be an Owner</b>	Yes	No. Only individuals, estates and certain trusts may be shareholders.	Yes	Yes	Yes
<b>Nonresident may be an Owner</b>	Yes	No	Yes	Yes	Yes
<b>Basic Ownership Unit</b>	Share	Share	Partnership interest implicitly bifurcated into governance and financial rights	Partnership interest implicitly bifurcated into governance and financial rights	LLC interest implicitly bifurcated into governance and financial rights
<b>Limited Liability</b>	Yes	Yes	No	Limited partners have limited liability if they do not participate in management of the partnership. General partners do not have limited liability.	Yes
<b>Member Participation in Management</b>	Management of corporation vested in the board of	Management of corporation vested in the board of	All partners have equal rights to manage and	Limited partners may not participate in	Subject to LLC agreement.

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	directors. Shareholders elect directors and vote on organic changes.	directors. Shareholders elect directors and vote on organic changes.	participate in business except as restricted by partnership agreement.	management without losing limited liability. General partner manages partnership.	
<b>Transferability of Interest</b>	Freely transferable, absent restrictions in stockholder agreement	Freely transferable, absent restrictions in stockholder agreement. However, a transfer to an ineligible party may result in termination of S corporation status.	General partnership interest generally (in practice) not transferable.	General partnership interest generally (in practice) not transferable. Limited partnership interest may be transferable.	Subject to LLC agreement.
<b>Liquidation</b>	Corporation and shareholders generally recognize gain or loss	Corporation recognizes gain or loss which is taxed to shareholders	Generally, no gain or loss recognized. Gain or loss may be recognized for certain non-pro rata distributions.	Generally, no gain or loss recognized. Gain or loss may be recognized for certain non-pro rata distributions.	Nontaxable to the extent of a member's basis
<b>Fringe Benefits</b>	Shareholder employees may receive tax qualified fringe benefits without restriction	Owner of more than 2% of S corporation shares generally cannot receive tax-free benefits. Expenses for benefits are deductible in computing taxable income but amounts used to purchase benefits for more than 2% shareholders flow through as income to them.	Partners generally not eligible for tax-free fringes	Partners generally not eligible for tax-free fringes	Members generally not eligible for tax-free fringes
<b>Employment Taxes</b>	FSCA tax payable by the corporation and employees	FSCA tax payable by the corporation and employees	Self-employment tax applies to compensation of partners	Self-employment tax applies to compensation of partners	Self-employment tax applies to compensation of members
<b>IRS Election Required</b>	None	Yes – Form 2553	None	None	None
<b>Federal tax return</b>	Form 1120	Form 1120-S	Form 1065	Form 1065	Form 1065
<b>Classes of Ownership</b>	Multiple classes permitted	Only one class of stock is permitted. There can be differences in voting rights, however, and debt	Multiple Classes permitted	Multiple classes permitted	Multiple classes permitted

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		may be utilized.			
<b>Restriction on Ownership of Subsidiaries</b>	No restrictions	No restriction on ownership of C corporation subsidiaries. An S corporation may also have a wholly-owned S corporation subsidiary or own interests in an LLC or other partnership.	No restrictions	No restrictions	No restrictions
<b>Tax Year</b>	No restrictions	Generally calendar	Generally calendar	Generally calendar	Generally calendar
<b>Cash Method of Accounting</b>	Generally not permissible unless corporation is a personal service corporation, farming business, or has less than \$5M in gross receipts	Generally permissible	Generally permissible	Generally permissible	Somewhat unclear; LLC probably cannot use cash method if has a C corporation member of if more than 35% of losses are allocable to non-manager members.