

Comparison of Business Types

Revised: September, 2005

Features to Consider	Sole Proprietorship	Partnership	Limited Liability Company/Partnership (LLC) and (LLP)	S-Corp	C-Corp
Description	One individual who carries on a trade or business as a self-employed person	An association of two or more who make a legal contract with each other to carry on a trade or business	A hybrid entity that combines the pass through attributes of a partnership with limited liability characteristics of a corporation.	A corporation that has elected to taxed as an S Corporation; no more than 100 shareholders, only one class of stock, domestic, other restrictions	An organization that has its own legal identity, rights, and liabilities similar to an individual.
Liability	Unlimited Personal Exposure – Personal Assets may be attached by creditors	Unlimited Personal Exposure – Personal Assets may be attached by creditors	Limited – except to personally guarantee loans	Limited – except to personally guarantee loans	Limited – except to personally guarantee loans
Control/Management	Owner controls and manages	Shared/Divided Authority	Management may be separate from ownership	Management may be separate from ownership; limited to 100 shareholders	Management may be separate from ownership; Board of Directors
Startup	May need EIN, Sales Tax ID number, Assumed Name Filing is recommended	Need EIN and MN ID Number, A Partnership Agreement is recommended	More costly to organize (may need an attorney) Assumed Name; Need Articles of Organization	More costly to organize (may need an attorney) Assumed Name; Need Articles of Incorporation	More costly to organize (may need an attorney) Assumed Name; Need Articles of Incorporation
Profits and Distributions	Profits are taxed when earned. Owner withdrawals are tax free.	Profits are taxed on individual partner's tax return; Distribution of profits are tax free.	Profits are taxed when earned. Distributions of profits are tax free.	Profits are taxed on individual shareholder's tax return. Distribution of profits are tax free	Profits are taxed on corporate tax return. Distribution of profits are taxed again on shareholder's tax return.
Continuity	Business is dissolved at death of owner	Might be dissolved at death or departure of any partner	Might be dissolved at death or departure of any partner	Continuity of life – adjust ownership by selling/trading stock	Continuity of life – adjust ownership by selling/trading stock
Unemployment Taxes (FUTA, SUTA)	FUTA: Children under 21, Spouse, Parent are exempt SUTA: Children under 18, Spouse, Parent are exempt	Owners are exempt	Like Partnership	Choice of FUTA or SUTA for owner/principal	Pay FUTA and SUTA on Owners salary

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FICA (Social Security and Medicare)	Children under 18 are exempt; can save about \$740 in FICA per child when paying \$4850 per child	Pay FICA on children unless parents are the only partners	Pay FICA on children	Pay FICA on Owners salary	Pay FICA on Owners salary
Annual Tax Filing Fee for Minnesota State Return	None	Sliding Scale – Same for Partnerships, S-Corps, and C-Corps	Sliding Scale	Sliding Scale	Sliding Scale
Tax Treatment	Owner included Business's Net Income on Personal Return; also pays FICA on Net Income. Pay Estimated Taxes during the year. Losses can offset any other income, interest, and salary of a spouse.	Owners split Net Income according to Partnership Agreement; See Sole Proprietor. If partner actively participates, losses can offset other income.	Taxed like a Partnership	Owners/Managers receive salaries subject to federal and state withholding and FICA; Income or loss is passed through to the shareholders and taxed at the individual level. Pass through of profits is not subject to FICA/SE (self employment) Tax as in a partnership.	Double Taxation: Corporation pays tax on Net Income at corporate tax rate. Corporate tax rates are less than individual tax rates. Losses must be carried to a year that has profits. Capital losses can only offset capital gains. Managers receive salaries subject to federal and state withholding and FICA. Dividends are taxable income to owners.
Home office deduction	Yes	Yes	Yes	No	No
Forms required	Schedule C	1065	1065	1120S	1120
Tax Filing Due Date	April 15	April 15 (or 3-1/2 months after fiscal year end)	April 15 (or 3-1/2 months after fiscal year end)	March 15 (or 2-1/2 months after fiscal year end)	March 15 (or 2-1/2 months after fiscal year end)

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