

Business Structure Breakdown

Sole Proprietorship

- Small business owned by one person
- Inexpensive to set up, but personally liable if business is sued
- Business income is reported on your personal tax return (*Schedule C*)
- Single Member LLC's are treated this way by the IRS

Partnership

- Business owned by two or more individuals
- Several different forms of partnership with varying degrees of personal liability
- Requires an agreement between the partners to conduct business
- Business tax return must be filed (*Form 1065*)
- Business income is reported on your personal tax return (*Schedule K-1*)

Limited Liability Company (LLC)

- Business is a separate legal entity
- Not personally liable if business is sued (*unless veil is pierced*)
- Must keep accurate financial records
- Treated the same as Partnerships for tax purposes unless Single Member LLC

Corporation

- Complex business structure
- Separate legal entity so no personal liability
- Typically for larger, well-established companies
- Owned by shareholders who pay tax on dividends they receive
- Company pays tax at the corporate level (*double taxation*)

S Corporation

- Business that elects IRS Subchapter S status
- Limited liability benefits of a Corporation
- Taxed similar to a Partnership
- Several specific requirements must be met to qualify
- Shareholders are owners and employees (*must take a reasonable salary*)
- No self-employment tax due on business profits (*tax savings at personal level*)