

# Business entities

## Quick reference guide



Type of Business	Ownership Structure	Liability	Taxation
<p><b>Sole Proprietorship</b> — The simplest form of business; the business doesn't have a separate legal existence from the owner</p>	<p>Unincorporated — Single owner and business are one and the same for legal and tax purposes</p>	<p>Owner has unlimited personal liability.</p>	<ul style="list-style-type: none"> <li>• Owner reports profits and losses on Schedule C and files with Form 1040 on his/her individual tax return.</li> <li>• Potential 199A (Qualified Business Income) deduction of 20% depending on the specified trade or business and income phaseout limits</li> </ul>
<p><b>Partnership</b> — Two or more owners (partners) who contribute to all aspects of the business and share in the profits and losses</p>	<p>Unincorporated — Two or more persons or entities</p>	<p>General partner has unlimited personal liability. Limited partner has liability to the total amount of investment in the partnership.</p>	<ul style="list-style-type: none"> <li>• Partnership files a tax return with appropriate breakdown of total distributive share of each deduction, income, and credit Schedule K-1 on Form 1065.</li> <li>• Schedule K-1 (Form 1065) is used to enter each partner's share and used by each partner for individual tax returns. Partners then report profits, losses, and deductions on Schedule E of Form 1040.</li> <li>• Potential 199A deduction of 20% (eligibility based on specific business and income)</li> </ul>
<p><b>C Corporation</b> — A legally independent entity owned by shareholders</p>	<p>Incorporated — One or more persons or entities</p>	<p>Full asset protection. Owners/shareholders have no personal liability.</p>	<ul style="list-style-type: none"> <li>• A C corporation must file a tax return annually, even if it doesn't owe any tax or have any income (Form 1120).</li> <li>• C corporations are taxed on profits at the entity level. Shareholders are taxed again on dividend distributions (Form 1099-DIV). Dividends paid to shareholders are not deductible by the corporation.</li> <li>• C corporations can deduct a reasonable amount for salaries paid to officers and employees.</li> <li>• Possible additional income tax for unreasonable amounts of earnings or profits not being distributed to shareholders</li> </ul>

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<b>S Corporation</b> — A legally independent entity owned by shareholders	Incorporated — One or more (up to 100) U.S. persons, estates, certain types of trusts, charitable organizations, and qualified retirement plans	Full asset protection. Owners/shareholders have no personal liability.	<ul style="list-style-type: none"> <li>• Subchapter S corporations elect not to pay any corporate taxes on income but still must file an annual tax return (Form 1120-S).</li> <li>• Tax liability is the responsibility of the shareholders even if/when income from the S corporation is not distributed to them.</li> <li>• Potential 199A deduction of 20% (eligibility based on specific business and income)</li> </ul>
<b>Limited Liability Company (LLC)</b> — A hybrid entity that joins the limited liability of a corporation with the pass-through tax advantages of a partnership	Unincorporated — One or more persons or entities	Owner(s) — No personal liability	<ul style="list-style-type: none"> <li>• An LLC can choose its federal tax classification as a Partnership (two or more members), S corporation, C corporation, or Sole Proprietor (single member) (Form 8832).</li> <li>• Potential 199A deduction of 20% (eligibility based on specific business and income) if established as a pass-through for profits and losses</li> </ul>
<b>Family Limited Partnership</b> — A unique limited partnership structure	Two or more family members or trusts for the primary benefit of family members (typically of different generations)	General partner has unlimited personal liability (usually older family member). Limited partner has no personal liability and is only liable to the total amount of investment in the partnership (usually second/third generation family member).	Same as Partnership

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