SAUNDERS PORTUGAL
AND ASSOCIATES, INC.

557 N. Hough St. Suite F
Barrington, IL 60010
Phone: (847) 381-5501
Fax: (847) 381-7847

Entity	Sole Proprietorship / Single member LLC	Partnership	C Corporation	S Corporation	LLC
Tax Form	**1040 - Schedule C**	**1065**	**1120**	**1120S**	**1065**
Entity Description	One individual who carries on an unincorporated business.	An association of 2 or more owners who carry on an unincorporated business.	An entity that carries its own legal status, separate from its owners.	A corporation can elect to be taxed as an S Corp. There are certain restrictions that need to be met.	An entity formed under state law that combines the pass-through attributes of a partnership with the limited liability of a corporation.
Taxation	Net profit is computed on schedule C and is reported on the owners 1040.	Form 1065 is prepared for the partnership and a K-1 is distributed to each of the partners so that they can report the income and expenses of the partnership on their individual returns. Income is taxed whether or not it is distributed.	A C corporation pays tax on its profits. When the owners take profits, they are taken as taxable dividends (double taxation).	S corporations are taxed in the same way as partnerships. Form 1120S is prepared for the corporation and a K-1 is distributed to the shareholders.	An LLC is a dissregarded entity for IRS purposes. It is taxed as a partnership if there are 2 or more members or as a sole proprietorship if there is only 1 member.
Wages & SE Tax	The owner is subject to SE tax of 15.3% of net earnings.	A partners share of income is subject to SE tax of 15.3%.	Shareholders who perform services are treated as employees. Wages of employees are subject to payroll tax and withholding. Wages must be reasonable.	An employee-shareholder receives wages for services and they should be reasonable. Additional profits are passed through to the shareholder and are taxable for income tax but not SE tax.	Profits are treated the same as in a partnership or sole proprietorship.
Losses	Business losses can offset other income, capital gains, interest or a spouses wages.	Losses flow through to partners. Loss is limited to basis, at-risk rules and passive activity rules.	Capital losses are allowed only to the extent of capital gains. Losses can be carried forward to be used in future years, but not passed through to shareholders.	Losses flow through to shareholders and are limited by basis, at-risk rules and passive activity rules.	Losses flow through to members. Loss recognition is limited by basis, passive activity rules and at-risk rules.
Fringe Benefits	Only amounts paid on behalf of employees are deductible as an expense of the business. There are some exceptions.	Generally not tax free to partner and should be included in partners income.	Owner-employees are entitled to the same tax-free fringe benefits as other employees.	Restricted for employee-shareholders that own more than 2% of the corporation. Must be included in wages.	Generally not tax free to partner and should be included in partners income.

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Personal Liability	The sole proprietor is liable for all business debts and actions.	A general partner is personally liable for all partnership debt. A limited partner is generally limited to their investment.	Liability is generally limited to the amount invested.	Liability is generally limited to the amount invested.	The degree of liability protection for members of an LLC vary from state to state.
Organization and Administration	Easiest to set up. Intermingling of business and personal funds is allowed (but not recommended).	Easy to organize. A written agreement is recommended, but not required.	More cumbersome and expensive to organize. Minutes must be kept. There are state and federal regulations that must be complied with.	An S corporation is set up as a regular corporation. The S election must be made.	Same as partnership or sole proprietor.
Bookkeeping and Accounting	Few requirements on what type of accounting system is used.	Depending on income and assets, the partnership may be required to include a balance sheet with its income tax return. Therefore, the partnership should use the double-entry bookkeeping method.	The balance sheet on a corporation's tax return must agree with the corporate books. A corporation must use a double-entry bookkeeping system. A corporation must file all necessary employment tax returns.	An S corporation must use double-entry bookkeeping. An S corporation must file all required payroll tax and reporting forms.	Same as partnership or sole proprietor.
Advantages	Minimum legal restrictions. Easy to discontinue.	Can be a good way to combine the skills and/or financial abilities of several people.	Limited Liability. Ability to raise capital by selling stock. Ease of transfer of ownership.	Limited liability. Avoids double taxation of profits. Profits passed through are not subject to SE tax as in a partnership.	Avoids certain S corporation restrictions. Avoids double taxation of profits.
Disadvantages	Unlimited liability. Income tax cannot be deferred by retaining profits.	Easier to get into than out of. General partners are liable for the actions of all partners.	Double taxation of profits. Subject to various state and federal controls.	Shareholders pay tax on earnings even if undistributed. Contribution limits to a qualified retirement plan are based on employee shareholder wages, not overall profits.	Inconsistent treatment state to state. Must have at least two owners if it wants to be taxed as a partnership for federal tax purposes.