

BUSINESS ENTITY STRUCTURES AND TAX CLASSIFICATIONS

Entity Type	Definition	Ease of Formation	Tax Rates	Tax Laws/ Regulations	Required Tax Filing Forms	IRS Tax Election Forms	Advantages	Disadvantages
<i>Sole Proprietorship</i>	A business owned and operated by a single individual	Easy	Individual tax rates	Governed by individual income tax laws	IRS Form 1040/Schedule C/E/F	None	1. Simplicity in formation and operation 2. Full control over business decisions	1. Unlimited personal liability for debts and obligations 2. Limited access to capital
<i>Partnership</i>	A business structure in which two or more individuals manage and operate a business in accordance with the terms and objectives set out in a Partnership Deed	Moderate	Pass-through taxation (individual rates)	Governed by partnership tax laws	IRS Form 1065	None	1. Shared decision-making and workload 2. Tax advantages through pass-through taxation	1. Unlimited personal liability for debts and obligations 2. Shared profits and liabilities among partners
<i>S Corporation (Subchapter)</i>	A special type of corporation that meets specific Internal Revenue Code requirements, giving a corporation with 100 shareholders or fewer the benefit of incorporation while being taxed as a partnership	Moderate	Pass-through taxation (individual rates)	Governed by Subchapter S of the Internal Revenue Code	IRS Form 1120S	IRS Form 2553	1. Limited liability for shareholders 2. Pass-through taxation	1. Stricter IRS regulations compared to partnerships 2. Limitations on shareholders and ownership
<i>C Corporation</i>	A legal entity that is separate and distinct from its owners	Complex	Corporate tax rates	Governed by Subchapter C of the Internal Revenue Code	IRS Form 1120	None	1. Limited liability for shareholders 2. Easier access to capital through stock offerings	1. Double taxation on corporate profits 2. Stricter regulatory requirements
<i>LLC (Limited Liability Company)</i>	An LLC is a business structure that combines the limited liability protection of a corporation with the pass-through taxation of a partnership or sole proprietorship.	Moderate	Can choose taxation as sole proprietorship, partnership, or corporation	Governed by state LLC laws and possibly elects taxation under Subchapter S	IRS Form 1040, 1120, 1120S or 1065	IRS Form 8832 or 2553	1. Limited liability for members 2. Flexible management structure 3. Personal assets are typically shielded from the debts and liabilities of the business, except in cases of fraud or certain other circumstances where personal liability may be imposed	1. Potential for self-employment taxes 2. Varying state regulations
<i>Nonprofit</i>	An organization established for purposes other than making a profit	Moderate	Tax-exempt or reduced tax rates depending on activities	Governed by nonprofit tax laws and regulations	IRS Form 990	File necessary exemption forms	1. Tax-exempt status for qualifying organizations 2. Eligibility for grants and donations	1. Limited ability to generate profits for individuals or shareholders 2. Compliance with IRS regulations 3. Limited to organization's assets

Business Entity Creation
Submit through your Secretary of State website
Confirm if S Corp elections are allowed in your state

IRS EIN Verification Letter confirms form to file on taxes:
[Online IRS EIN Application](#)
[Paper IRS EIN Application SS-4](#)

IRS Election Forms:
[IRS Form 2553](#)
[IRS Form 8832](#)

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