

LLC vs Corporation

Below we have listed some of the main questions people have about company structures and general answers about LLC vs incorporation in a side-by-side format. If you're wondering about the differences between an LLC and incorporation, this may help you decide what entity is best for you.

Question	C-Corporation	LLC	S-Corp
Type of Ownership	Stock, there may be different classes.	Membership Interests. There may be different classes of membership.	Stock, but only one class. But can have voting and non-voting.
Eligible Owners	No restrictions.	No restrictions.	100-shareholder limit. No non-individual and no non-resident alien shareholders
Management	Managed by director(s) and officer(s).	Managed by all members or designated manager(s).	Directors and officers.
Allocations of Ownership	No. Dividends must be paid based upon stock ownership.	Permitted if the allocations have substantial economic effect.	Income, gain, and loss pass through to the shareholders based on percentage of shares owned.
Liability of Owner	There is limited liability for shareholders, officers, and directors.	There is limited liability for owner(s) and manager(s).	There is limited liability for shareholders, officers, and directors.
Duration	Indefinitely.	Dissolves at the time specified in the Operating Agreement, or upon the loss of a member, unless other members agree to continue.	Indefinitely.
Transfer of Ownership	Shares freely transferred.	There maybe restrictions under certain state laws.	Shares can be transferred only to

			eligible S corporation shareholders
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Tax Information	C-Corporation	LLC	S-Corp
Tax Rate	One tax rate of 21% applies to taxable income. Personal Service Corporations are taxed at 35% of all income.	There is no tax to the LLC on LLC income. All profits or losses pass through and are taxed to the members.	There is no tax except in two limited circumstances: (1) Recognized built-in gains and (2) Excess passive income.
Pass Through of Losses	Losses not passed through.	Losses passed through to members, subject to certain restrictions.	Losses passed through to shareholders, subject to certain restrictions.
Fiscal Year	May use any fiscal year. Personal Service Corps must use a calendar year, subject to certain exceptions.	Must use tax year of members having a majority interest in the LLC, or the tax year of all principal members if there is no majority member.	Must use calendar year, subject to certain exceptions.
Liabilities and Basis	Not increased.	Increased.	Not increased.
Fringe Benefits	Shareholders – Employees are eligible for most.	Members are ineligible for certain ones.	2% shareholders are ineligible for certain ones.
Tax Upon Sale	Potential double taxation. Corporation is taxed on sale of assets, shareholders taxed on dividends or capital gains tax.	Single tax at member level upon sale of appreciated assets. Generally, no tax on distribution of appreciated assets.	Single tax at member level. Potential built-in gains taxed if corp. had appreciated property at time of S corp. election.

LLC Footnotes:

Here are a couple of other points about an LLC vs. a Corporation:

If you are looking for state tax savings, an LLC passes the tax through to the members. So, if the member(s) are in a state where you pay state taxes, you still pay state taxes on the profits that are passed through the LLC.

Also, in an LLC you can allocate the way you want the profits to be distributed and it does not have to be based upon the percentage of ownership. Here is an example: There are two members in an LLC that own it 50/50. However, one member is an investor only, who wants to protect his/her investment by controlling 50% of the company. But, the other member is the one doing all the work and who wants more than 50% of the profit. Just write in the agreement that the working member gets 75% of the profits, even though he/she only own 50% of the business.

S-Corp Footnotes

Here's a point about the S-Corporation that could give people paying themselves a salary, an edge. With an S-Corp as long as you pay yourself a reasonable salary, you can take the balance as profit income. This could lower the amount of self-employment taxes that you have to pay.

Also, in Wyoming we establish all corporations as C Corporations. Wyoming does not have any state taxes, so has no need for S Corporations. If you want S Corporation status, you must file Form 2553 with the IRS, which is included in the corporate kit we send you, within 75 days from the date of formation of the company or by March 15th of any given tax year.

There are many factors which weigh in on what type of company to form. You should consult with your legal and/or accounting professional to make sure that you make the correct decision between an LLC or corporation.