

# What is the Difference Between a Sole Proprietorship, Partnership, Corporation or LLC?

Careful consideration should be taken when choosing a business entity as that choice can make a difference in taxes, ability to raise capital, exposure to liability and administrative duties.

Generally, all businesses will fall into one of four entities including; sole proprietorship, partnership, corporation or limited liability company (LLC). Here is a brief summary along with some of the advantages and disadvantages.



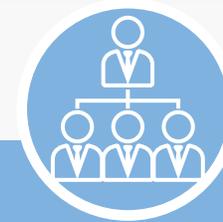
## Sole Proprietorship

A sole proprietorship is a business owned and operated by an individual. This is the least complicated, lowest cost and fastest business entity to form. The major disadvantage to a sole proprietorship is unlimited liability, as any lawsuits from the business will likely include the owner's personal assets and vice versa.



## General Partnership

A general partnership is business owned between two or more people. Just like the sole proprietorship, a general partnership offers low startup costs and is easy to form. The partnership also has the issue of unlimited personal liability and each partner is personally liable for the business decisions of the other partners.



## Corporation

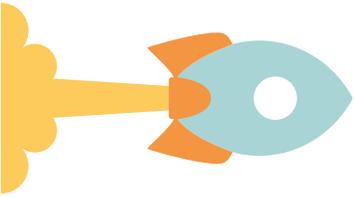
A corporation is the most complex of the four business structures. The corporation is a unique legal entity, separating business and personal assets. In the event the business is sued, the owner's personal assets are typically protected. Owning a corporation requires that a number of administrative duties be performed.



## Limited Liability Company (LLC)

While not as complex to form as the corporation, the LLC combines the ease of operation like a sole proprietorship or partnership with the limited liability of a corporation. Another benefit of the LLC is not having many of the administrative requirements of the corporation.

*No matter which type of business organization you choose to form, make sure you consider all of your options and consult with a legal professional to fully understand the benefits and drawbacks to each type of entity.*



# Pros and Cons of Business Entities

	Sole Proprietorship	General Partnership	C Corporation	S Corporation	LLC
Liability	Unlimited personal liability for the owner	Unlimited personal liability for the owners	Typically limited to investment	Typically limited to investment	Typically limited to investment
Taxation of Income	Directly to owner	Directly to partners	Taxed once at corporate level and again as dividends	Business profits taxed as personal income of shareholders	Generally taxed as a partnership
Self-employment Taxes	Yes	Yes if general partner, generally no if limited partner	No, since payment for employment is in the form of wages	No, since payment for employment is in the form of wages	Depends on tax status of LLC
Complexity of Formation	Easiest to start	Relatively easy to start. Partnership agreement is recommended but not required	Most complex. File with Secretary of State, form bylaws and have board & shareholders meetings	Most complex. File with Secretary of State, form bylaws and have board & shareholders meetings	File with Secretary of State and in many cases adopt an operating agreement
Entity Pros	<ul style="list-style-type: none"> <li>- Easiest and least expensive to form</li> <li>- No separate tax return</li> </ul>	Chance of business success enhanced if right combination of partners	Limited personal liability for shareholders	Limited liability without double taxation like C Corporation	<ul style="list-style-type: none"> <li>- Limited liability with partnership tax treatment</li> <li>- Fewer administrative requirements than corporation</li> </ul>
Entity Cons	Unlimited liability	<ul style="list-style-type: none"> <li>- Unlimited liability</li> <li>- Each partner legally responsible for the business acts of other partners</li> </ul>	<ul style="list-style-type: none"> <li>- Cost of formation</li> <li>- Administrative requirements and recordkeeping</li> <li>- Double taxation of profits</li> </ul>	<ul style="list-style-type: none"> <li>- Cost of formation</li> <li>- Administrative requirements and recordkeeping</li> </ul>	<ul style="list-style-type: none"> <li>- Cost of formation.</li> <li>- Tax and liability treatment of LLCs is not consistent across state lines</li> </ul>
Typically Best For	Owner of a small business with no employees and little risk of being sued	Owners of a small business with no employees and little risk of being sued	Company seeking significant outside investment	Company seeking some investment or wanting to shield personal assets	Company wanting to shield personal assets

Still have questions, talk with business mentors at [StartingYourBusiness.com](https://StartingYourBusiness.com)

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