

## Company Structure Comparison

Below we have listed some of the main questions people have about company structures and general answers in a side-by-side format, that may help you decide what entity is best for you.

Question	C-Corporation	LLC	S-Corp
<b>Type of Ownership</b>	Stock, there maybe different classes.	Membership Interests. There may be different classes of membership.	Stock, but only one class. But can have voting and non-voting.
<b>Eligible Owners</b>	No restrictions.	No restrictions.	75 shareholder limit. No non-individual and no non-resident alien shareholders
<b>Management</b>	Managed by director(s) and officer(s).	Managed by all members or designated manager(s).	Directors and officers.
<b>Allocations of Ownership</b>	No. Dividends must be paid based upon stock ownership.	Permitted if the allocations have substantial economic effect.	No. Income, gain, and loss pass through to the shareholders based on percentage of shares owned.
<b>Liability of Owner</b>	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.
<b>Duration</b>	Indefinitely.	Dissolves at the time specified in the Operating Agreement, or upon the loss of a member unless other members agree to continue.	Indefinitely.
<b>Transfer of Ownership</b>	Shares freely transferred.	There maybe restrictions under certain state laws.	Shares can be transferred only to eligible S corporation shareholders
<b>Tax Information</b>	<b>C-Corporation</b>	<b>LLC</b>	<b>S-Corp</b>
<b>Tax Rate</b>	Graduated Tax rates from 15% up to 39% apply 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.
<b>Pass Through of Losses</b>	Losses not passed through.	Losses passed through to members, subject to certain restrictions.	Losses passed through to shareholders, subject to certain restrictions.
<b>Fiscal Year</b>	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 member if there is no majority member.	Must use calendar year, subject to certain exceptions.
<b>Liabilities and Basis</b>	Not increased.	Increased.	Not increased.
<b>Fringe Benefits</b>	Shareholders - Employees are eligible for most.	Members are ineligible for certain ones.	2% shareholders are ineligible for certain ones.
<b>Tax Upon Sale</b>	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 tax if corp. had appreciated property at time of S corp. election.

As you can see above, the best two entities for most people are a C-Corp or LLC. The one or ones you choose should fit the circumstances that you have.

Here are a couple of other points about an LLC.

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. But one member is an investor only, who wants to protect their 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 they only own 50% of the business.

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 entity choices.