



## Tennessee Small Business Development Center – VSCC

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### BUSINESS ENTITY COMPARISON

Characteristics	Sole Proprietorship	General Partnership	Limited Liability Company	S Corporation	Corporation
<b>Formation</b>	No state filing required	Agreement between two or more parties. No state filing required.	State filing required	State filing required	State filing required
<b>Duration of Existence</b>	Dissolved if sole proprietor ceases doing business or dies	Dissolves upon death or withdrawal of partner unless safeguards are in place in a partnership agreement	Dependent on the requirements imposed by the state of formation	Perpetual	Perpetual
<b>Liability</b>	Sole proprietor has unlimited liability	Partners have unlimited liability	Member not typically liable for the debts of the LLC	Shareholders are not typically personally liable for the debts of the corporation	Shareholders are not typically personally liable for the debts of the corporation
<b>Operational Requirements</b>	Relatively few legal requirements	Relatively few legal requirements	Some formal requirements, but less formal than corporations	Board of directors, officers, annual meetings, and annual reporting required	Board of directors, officers, annual meetings, and annual reporting required.
<b>Management</b>	Sole proprietor has full control of management and operations	Typically each partner has an equal voice, unless otherwise arranged	Members have an operating agreement that outlines management	Managed by the directors, who are elected by the shareholders.	Managed by the directors, who are elected by the shareholders.
<b>Taxation</b>	Not a taxable entity. Sole proprietor pays all the taxes on a Schedule C with Federal Form 1040	Not a taxable entity. Each partner pays tax on their share of earnings. Can deduct profit or loss from other sources of income.	If properly structured, there is no tax at the entity level. Income/loss is passed on through members.	No tax at entity level. Income/loss is passed on through to shareholders.	Taxed at the entity levels. Also, if dividends are distributed to shareholders, dividend income is taxed at the individual level.
<b>Pass Through Income/Loss</b>	Yes	Yes	Yes	Yes	No
<b>Double Taxation</b>	No	No	No	No	Yes, if income is distributed to shareholders in dividends
<b>Cost of Creation</b>	None	None	State filing fee required	State filing fee required	State filing fee required
<b>Raising Capital</b>	Often difficult unless individual contributes funds	Partners contribute and more partners can be added	Possible to sell interests, though subject to operating agreement restrictions	Share of stock are sold to raise capital	Shares of stock are sold to raise capital
<b>Transferability of Interest</b>	No	No	Possibly depends on operating agreement	Yes, but must observe IRS regulations	Shares of stock easily transferred