

**Business Structure Basics** Reproduction with written permission of CT Corporation

| Characteristics                 | Sole Proprietorship   | General Partnership   | Limited Partnership   | Limited Liability Partnership  | C Corporation  | S Corporation   | Limited Liability Company   |
|---------------------------------|---|---|---|--|--|---|---|
| <b>Formation</b>                | No state filing required.   | Agreement between two or more parties. No state filing required.                                  | State filing and appointment of registered agent required.  | State filing and appointment of registered agent required. Some states limit LLPs to licensed professionals. | State filing and appointment of registered agent required.                   | State filing and appointment of registered agent required. IRS election required.         | State filing and appointment of registered agent required.  |
| <b>Duration of Existence</b>    | Dissolved if entity ceases doing business or upon death of the sole proprietor. | Dissolves upon death or withdrawal of a partner, unless safeguards are specified in an agreement. | Death or withdrawal of general partner triggers dissolution unless partnership agreement provides otherwise; death of limited partner does not trigger dissolution. | Dependent on the requirements imposed by the state of formation.   | Perpetual, unless otherwise stated in articles of incorporation.             | Perpetual, unless otherwise stated in articles of incorporation.                          | Perpetual, unless otherwise stated in formation documents.  |
| <b>Liability</b>                | Sole proprietor has unlimited liability.  | Partners have unlimited liability.  | At least one general partner has unlimited liability.   | Partners are not typically responsible for the debts of the LLP.   | Shareholders are typically not responsible for the debts of the corporation. | Shareholders are typically not responsible for the debts of the corporation.              | Members are not typically responsible for the debts of the LLC.   |
| <b>Operational Requirements</b> | Relatively few legal requirements.  | Relatively few legal requirements.  | Some formal requirements, but less formal than corporations.  | Certain states require an LLP to carry insurance or an escrow.   | Board of Directors, annual meetings, and annual report.                      | Board of directors, annual meetings, and annual report.                                   | Few formal requirements for meetings and management structure. Annual report is generally required.         |
| <b>Management</b>               | Sole proprietor has full control of management and operations.                  | Typically each partner has an equal voice, unless otherwise arranged.                             | Limited partners are excluded from management other than actions specifically allowed under state law.  | All partners have the right to manage the business directly.   | Managed by directors who are elected by shareholders.                        | Managed by directors who are elected by shareholders.                                     | Can be managed by members or by managers selected by members.   |
| <b>Taxation</b>                 | Not a taxable entity. Sole proprietor pays all taxes.                           | Not taxed at entity level, but partnership tax return must be filed.                              | Not taxed at entity level, but partnership tax return must be filed.  | Not taxed at entity level, but partnership tax return must be filed.   | Taxed at entity level. Corporate tax return must be filed.                   | Generally not taxed at entity level; but S corp tax return must be filed.                 | Not taxed at entity level unless election to be taxed as corporation is made. LLC tax return must be filed. |
| <b>Pass-through Income/Loss</b> | Yes.  | Yes.  | Yes.  | Yes.   | No.  | Yes.  | Yes.  |
| <b>Double Taxation</b>          | No.   | No.   | No.   | No.  | Yes, if income distributed to shareholders as dividends.                     | No.   | No.   |
| <b>Cost of Creation</b>         | None.   | None.   | State filing fee required.  | State filing fee required.   | State filing fee required.   | State filing fee required.  | State filing fee required.  |
| <b>Equity Financing</b>         | Often difficult unless individual contributes funds.                            | Contributions can be made from partners, and more partners can be added.                          | Contributions can be made from partners, and more partners can be added.  | Contributions can be made from partners, and more partners can be added.                                     | Shares of stock are sold to raise capital.                                   | Shares of stock are sold to raise capital subject to IRS restrictions on stock ownership. | Possible to sell interests, though subject to operating agreement restrictions.                             |