Sole Proprietorship

A sole proprietorship is easy to form and gives you complete control of your business. You're automatically considered to be a sole proprietorship if you do business activities but don't register as any other kind of business.

Sole proprietorships do not produce a separate business entity. This means your business assets and liabilities are not separate from your personal assets and liabilities. You can be held personally liable for the debts and obligations of the business. Sole proprietors are still able to get a trade name. It can also be hard to raise money because you can't sell stock, and banks are hesitant to lend to sole proprietorships.

Sole proprietorships can be a good choice for low-risk businesses and owners who want to test their business idea before forming a more formal business.

Partnership

Partnerships are the simplest structure for two or more people to own a business together. There are two common kinds of partnerships: limited partnerships (LP) and limited liability partnerships (LLP).

Limited partnerships have only one general partner with unlimited liability, and all other partners have limited liability. The partners with limited liability also tend to have limited control over the company, which is documented in a partnership agreement. Profits are passed through to personal tax returns, and the general partner — the partner without limited liability — must also pay self-employment taxes.

Limited liability partnerships are like limited partnerships but give limited liability to every owner. An LLP protects each partner from debts against the partnership, they won't be responsible for the actions of other partners.

Partnerships can be a good choice for businesses with multiple owners, professional groups (like attorneys), and groups who want to test their business idea before forming a more formal business.

Limited Liability Company (LLC)

An LLC lets you take advantage of the benefits of both the corporation and partnership business structures.

LLCs protect you from personal liability in most instances, your personal assets — like your vehicle, house, and savings accounts — won't be at risk in case your LLC faces bankruptcy or lawsuits.

Profits and losses can get passed through to your personal income without facing corporate taxes. However, members of an LLC are considered self-employed and must pay self-employment tax contributions towards Medicare and Social Security.

LLCs can have a limited life in many states. When a member joins or leaves an LLC, some states may require the LLC to be dissolved and re-formed with new membership — unless there's already an agreement in place within the LLC for buying, selling, and transferring ownership.

LLCs can be a good choice for medium- or higher-risk businesses, owners with significant personal assets they want protected, and owners who want to pay a lower tax rate than they would with a corporation.

Corporation

A corporation, sometimes called a C Corp, is a legal entity that's separate from its owners. Corporations can make a profit, be taxed, and can be held legally liable.

Corporations offer the strongest protection to their owners from personal liability, but the cost to form a corporation is higher than other structures. Corporations also require more extensive record-keeping, operational processes, and reporting.

Unlike sole proprietors, partnerships, and LLCs, corporations pay income tax on their profits. In some cases, corporate profits are taxed twice — first, when the company makes a profit, and again when dividends are paid to shareholders on their personal tax returns.

Corporations have a completely independent life separate from their shareholders. If a shareholder leaves the company or sells his or her shares, the C Corp can continue doing business relatively undisturbed.

Corporations have an advantage when it comes to raising capital because they can raise funds through the sale of stock, which can also be a benefit in attracting employees.

Corporations can be a good choice for medium- or higher-risk businesses, those that need to raise money, and businesses that plan to "go public" or eventually be sold.

Simple Corporation

A Simple Corporation, sometimes called an S Corp, is a special type of corporation that's designed to avoid the double taxation drawback of regular C corps. S Corps allow profits, and some losses, to be passed through directly to owners' personal income without ever being subject to corporate tax rates.

Not all states tax S corps equally, but most recognize them the same way the federal government does and tax the shareholders accordingly. Some states tax S corps on profits above a specified limit and other states don't recognize the S Corp election at all, simply treating the business as a C corp.

S corps must file with the IRS to get S Corp status, a different process from registering with their state.

There are special limits on S corps. Check the IRS website for eligibility requirements. You'll still have to follow the strict filing and operational processes of a C corp.

S corps also have an independent life, just like C corps. If a shareholder leaves the company or sells his or her shares, the S Corp can continue doing business relatively undisturbed.

S Corps can be a good choice for a business that would otherwise be a C Corp, but meets the criteria to file as an S corp.

Compare Business Structures

Compare the general traits of these business structures, but remember that ownership rules, liability, taxes, and filing requirements for each business structure can vary by state. The following table is intended only as a guideline.

Business structure	Ownership	Liability	Taxes
Sole proprietorship	One person	Unlimited personal liability	Self-employment tax Personal tax
Partnerships	Two or more people	Unlimited personal liability unless structured as a limited partnership	Self-employment tax (except for limited partners) Personal tax
Limited liability company (LLC)	One or more people	Owners are not personally liable	Self-employment tax Personal tax or corporate tax
Corporation - C corp	One or more people	Owners are not personally liable	Corporate tax
Corporation - S corp	One or more people, but no more than 100, and all must be U.S. citizens	Owners are not personally liable	Personal tax
Corporation - B corp	One or more people	Owners are not personally liable	Corporate tax
Corporation - Nonprofit	One or more people	Owners are not personally liable	Tax-exempt, but corporate profits can't be distributed