TAX YEAR 2025

Business Entity Comparison Chart

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Entity	Accounting and Recordkeeping	Fringe Benefits	Liability
Sole proprietor, single-member LLC, and spouses-owned business • Schedule C (Form 1040), *Profit or Loss From Business* • Schedule F (Form 1040), *Profit or Loss From Farming* • Schedule SE (Form 1040), *Self-Employment Tax* • IRS Pub. 334, *Tax Guide for Small Business*	• Accounting is less involved than partnerships and corporations. Double-entry bookkeeping is not required as no balance sheet is needed when filing Schedule C or Schedule F. • A non-LLC business owned solely by two spouses may elect not be taxed as a partnership and may file as two sole proprietorships to minimize bookkeeping requirements. • Cannot file as a fiscal year business unless owner files Form 1040 under the fiscal year rules.	Excludable fringe benefits are generally not allowed for the owner. ***Exceptions:*** Health insurance is deductible if the spouse is an employee of the sole proprietorship, and the owner is covered as a family member of the employee-spouse. Owners are eligible for dependent care assistance fringe benefits, de minimis fringe benefits, and working condition fringe benefits.	Owner is personally liable for all debts and lawsuits against the business. ***Exception:*** If organized as an LLC, liability is usually limited to owner's investment and his or her own malpractice or debt guarantees.
Partnership • Form 1065, *U.S. Return of Partnership Income* • IRS Pub. 541, *Partnerships* • IRS Pub. 3402, *Taxation of Limited Liability Companies* • IRC Subchapter K, §701 through §761	• Small partnerships are not required to provide a balance sheet and can use the same bookkeeping system as a sole proprietor. Larger partnerships must provide a balance sheet with the return, which requires double-entry bookkeeping. • A partnership must generally use the same tax year as its partners, but can use a fiscal year if there is a business purpose or an IRC section 444 election was made. • Complex books and records are needed when a partner exchanges property, other than cash, for a partnership interest or for special allocations and basis elections.	Partners are eligible for some excludable fringe benefits. Taxable benefits are reported as guaranteed payments or an adjustment to a partner's distributable share of profits.	A general partner is personally liable for all debts and lawsuits brought against the partnership. ***Exception:*** If the partner is a limited partner, or the business is organized as an LLC, liability is generally limited to the partner's investment, plus his or her own malpractice or debt guarantees.
S corporation • Form 1120-S, *U.S. Income Tax Return for an S Corporation* • IRC Subchapter S, §1361 through §1379	• Double-entry bookkeeping may be required depending on income and other factors affecting the need for a balance sheet on the return. • Must use a calendar year unless it establishes a business purpose for using a fiscal year, or it makes an IRC section 444 election.	Shareholder/employees are eligible for some excludable fringe benefits. Benefits added to taxable wages on Form W-2 of more than 2% shareholders include accident and health plans, up to $50,000 of group health insurance, and meals and lodging furnished for the employer's convenience.	A shareholder's liability is limited to the amount invested, plus his or her own malpractice or debt guarantees.
C corporation • Form 1120, *U.S. Corporation Income Tax Return* • IRS Pub. 542, *Corporations* • IRC Subchapter C, §301 through §385	• Double-entry bookkeeping may be required if the tax return requires a balance sheet. • No restriction on use of a fiscal year. ***Exception:*** A personal service corporation (PSC) must use a calendar year unless it establishes a business purpose for using a fiscal year or makes an IRC section 444 election. • Required to use accrual method of accounting if average annual gross receipts exceed $31 million.	Shareholder/employees eligible for excludable fringe benefits, generally to the same extent as any other employee, with exceptions under the nondiscrimination rules. Benefits can include health insurance and reimbursement, education, life insurance, etc.	A shareholder's liability is limited to the amount invested, plus his or her own malpractice or debt guarantees.

Business Entity Comparison Chart

Entity	Organization and Ownership	Taxation of Profits and Losses
Sole proprietor, single-member LLC, and spouses-owned business • Schedule C (Form 1040), *Profit or Loss From Business* • Schedule F (Form 1040), *Profit or Loss From Farming* • Schedule SE (Form 1040), *Self-Employment Tax* • IRS Pub. 334, *Tax Guide for Small Business*	• One individual carrying on an unincorporated trade or business. • A qualified joint venture whose only members are spouses may elect not to be taxed as a partnership and file as two sole proprietorships. An LLC may not make this election (except in community property states). • Easiest business to organize with minimal legal restrictions. • The entity does not exist apart from the owner. Business starts and ends based on the owner's involvement. • The owner has complete freedom over business decisions and is entitled to 100% of the profits. The owner is limited by his or her own ability to raise capital and obtain financing. Outside investors cannot be part owners. • Transfer of ownership consists of selling the business assets. • A single-member LLC is taxed as a sole proprietorship unless the election is made to be taxed as a corporation.	• The owner is self-employed and pays self-employment (SE) tax on net profits. • Net profits are subject to income tax in the year earned and cannot be deferred by retaining profits. • Losses offset other income in year incurred, such as Form W-2 wages, interest, dividends, and capital gains. ***Exceptions:*** Losses cannot be used to offset income from activities subject to passive loss, at-risk loss, and hobby loss rules. • Owner may qualify for the 20% qualified business income deduction (QBID).
Partnership • Form 1065, *U.S. Return of Partnership Income* • IRS Pub. 541, *Partnerships* • IRS Pub. 3402, *Taxation of Limited Liability Companies* • IRC Subchapter K, §701 through §761	• Two or more owners conducting an unincorporated trade or business. • Easy to organize with minimal legal restrictions. • Multi-member LLCs are taxed as partnerships, unless the election to be taxed as a corporation is made. • No limitations on the number of partners or partner entities. • More flexibility than a corporation in dividing up profits, losses, ownership of capital, and making special allocations to partners. • Contributing property in exchange for a partnership interest is a tax-free event (except for the receipt of cash). • Liquidating a partnership interest in exchange for property is generally tax-free, unless the liquidation is in cash only. • Getting out of a partnership may be more complicated than starting one. A partnership agreement can restrict selling or transferring of a partnership interest. • State law may limit an LLC's life.	• The partnership pays no income tax. Profits pass through to partners for individual payment of tax. • Tax to partners cannot be deferred by retaining business earnings. • Pass-through items retain the same character to the partner as they had to the partnership. • A general partner's distributive share of profits is subject to self-employment (SE) tax. Limited partners' share of profits not subject to SE tax unless in the form of guaranteed payments. • Payment for partner services to the partnership is not Form W-2 income, but may be guaranteed payments, profits, or special allocations. • Losses flow through to partners and can be used to offset other income such as Form W-2 wages, interest, dividends, and capital gains. ***Exceptions:*** Losses cannot be used to offset income from activities subject to passive loss, at-risk loss, and hobby loss rules. • Partner may qualify for the 20% qualified business income deduction (QBID).
S corporation • Form 1120-S, *U.S. Income Tax Return for an S Corporation* • IRC Subchapter S, §1361 through §1379	• A corporation that has elected to be taxed as an S corporation by filing Form 2553, *Election by a Small Business Corporation.* • Ownership is through owning shares of stock. Limited to 100 shareholders. (Spouses and their estates and all members of a family, as defined in IRC section 1361(c)(1)(B), and their estates can be treated as one shareholder for this test.) • Stock is limited to one class of stock with equal rights to distributions and liquidation proceeds. • Shareholders are limited to individuals, estates, certain trusts, and certain charities. Corporations and certain partnerships are ineligible to own stock. • Other ownership and organization issues are the same as a C corporation.	• An S corporation generally pays no tax. Profits flow through to the shareholders. • Pass-through items retain the same character to the shareholder as they had to the corporation. • Distributions are not subject to self-employment tax. • Shareholders who perform services are paid as employees and income is reported on Form W-2. • Losses flow through to shareholders and may be used to offset other income, subject to passive, at-risk, and hobby loss exception rules. • Shareholder may qualify for the 20% qualified business income deduction (QBID).
C corporation • Form 1120, *U.S. Corporation Income Tax Return* • IRS Pub. 542, *Corporations* • IRC Subchapter C, §301 through §385	• A legal association carrying on a trade or business organized under state law. • Ownership is through owning shares of stock, and there is no limit on number of shareholders, or type of taxpayer or entity. • Forming a corporation may require complex and expensive legal procedures. Corporations must hold board meetings, shareholder meetings, and keep corporate minutes. Corporations are subject to federal and state regulations. • The life of a corporation is perpetual. Transfers of ownership can be as easy as selling or inheriting stock. • Liquidating a corporation is usually a taxable event, and contributions in exchange for stock may be taxable. • Raising additional capital can be as easy as issuing new shares of stock.	• Shareholders who perform services are paid as Form W-2 employees subject to payroll taxes and reporting rules. • Reasonable wages must be paid and not inflated to reduce corporate tax liability. • Net profits are subject to tax at the corporate 21% rate. Profits distributed as dividends are taxed again on the shareholder's tax return. Tax to the shareholders can be deferred by retaining earnings for business purposes. • Losses do not pass through to shareholders. Business losses must be carried over to a year with profits. Capital losses must be carried over to a year with capital gains. At-risk limitations, hobby loss, and passive loss rules do not apply.