

## BUSINESS LIABILITY ISSUES

<u>Type of Entity</u>	<u>Is owner/investor personally liable for business debts?</u>	<u>Is federal tax imposed on business income/profits or do income/profits “pass through” to owner/investor?</u>
Sole Proprietorship	Yes.	Business income/profits “pass through” and are reportable on the sole proprietor’s personal income tax return.
General Partnership	Yes.	Business income/profits “pass through” and are reportable on the general partners’ personal income tax returns. However, a partnership will need to file an informational tax return with the IRS.
Limited Partnership	A limited partner is not personally liable unless the limited partner is active in the management of the business. However, a limited partnership must have at least one general partner who is personally liable for the business debts and obligations. A corporation or LLC can act as the general partner.	Business income/profits “pass through” and are reportable on the general and limited partners’ personal income tax returns. However, a limited partnership will need to file an informational tax return with the IRS.
Corporation	No.	A “C” corporation is taxed on its profits before the profits are distributed to the shareholders. Shareholders are then taxed on the dividends they receive (double taxation). An “S” corporation is not subject to double taxation; the profits “pass through” to the shareholders who report the distribution on their individual tax returns.

Limited Liability Company	No.	Business income/profits “pass through” to the members of the limited liability company and are reported on their individual income tax returns. However, a limited liability company will need to file an informational tax return with the IRS.
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