PROS AND CONS

BUSINESS FORM AND TAXATION

Type of Entity	PROS	CONS
Sole Proprietorship	Easy to set up. No double taxation. Income reported on personal income tax return. Taxes paid on income of the business and not on business as an entity.	No personal limited liability protection. You must pay twice the amount of Social Security and Medicare tax as you would as an employee. No life insurance deduction and only a partial health insurance deduction.
Partnership	No double taxation. All income is taxed proportionately to each of the partners who report it on their personal tax returns.	No personal limited liability protection (unless a limited partner in a limited partnership).
"S" Corporation	S Corporation may elect to be treated as a partnership for federal tax purposes with shareholders reporting their share of the corporation's separately listed items of income, deductions, loss, and credit on their personal tax returns. Shareholders have personal limited liability.	S Corporation may not have more than 100 shareholders. Shareholders and those owning 5 percent or more in stock have limited employee benefits.

"C" Corporation	Shareholders have limited personal liability. Health insurance premiums and group life insurance up to $50,000 in benefits are fully deductible by the corporation and not taxable to the employees. The corporate tax rate doesn't go as high as the individual rate (what a sole proprietor or partner would pay on an individual tax return).	Double taxation such that the corporation pays taxes on its income and the shareholder pays taxes on dividends. Shareholders cannot deduct the losses of the corporation.
Limited Liability Company	Personal limited liability of members. No double taxation. May have more than 100 members. Under IRS "check-the-box" rules a limited liability company may choose whether to be taxed like a partnership or a corporation.	Active members may be subject to self-employment tax for Social Security and Medicare. Limited liability companies are a relatively new business form and the laws are still evolving.