

IAN E. SCOTT, ESQ.

Scott Legal Services, P.C.
110 East 59th Street, Suite 25
New York, NY 10022

TELEPHONE: (212) 223-2964
www.legalservicesincorporated.com
iscott@legalservicesincorporated.com

Summary Of Considerations For Selection Of Business Entity

	Corporation	LLC	Sole Proprietorship
Who Is This Entity Perfect For?	Multiple owner business who do not mind complying with administrative formalities and where the exposure to personal liability & complex tax planning is a primary concern.	Sole or multiple- owner business where owner(s) need(s) limited liability but want to be taxed as an individual. Many who consider an LLC also consider an Corporation where they elect S-Status as the LLC & "S-Corp" entities have similarities.	Sole-owner business who want limited compliance responsibilities where taxes or liability (risk of being sued) are not a concern.
Number of Owners	1-100 (for S); More than 1 (for C)	One or more	One
Types of Owners	Limited to U.S. residents (people who file taxes as U.S. residents) and citizens and to certain trust/estate (for S); Any (for C)	Any	Any
What are the Advantages?	Limited liability; Capital is easy to raise through sale of stock; Tax savings through income splitting (C only)	Limited liability; Capital is easy to raise through sale of interests; Pass-through taxation to personal income tax return; Unlimited number of owners & no restrictions on owners.	Inexpensive to form; Few administrative duties.
What are the	More administrative	Can be costly to form	No tax benefits;

	Corporation	LLC	Sole Proprietorship
Disadvantages?	duties; S Corp must have fewer than 100 shareholders and owners must be resident aliens.	due to publication requirement.	Unlimited liability; Business dissolves upon death of owner.
Cost of Formation	Moderate	Expensive due to Publication requirement.	Low
How easy is it to set up?	Most difficult as you must appoint a board, develop articles of incorporation, bylaws and follow other formalities.	Not difficult but you must create an operating agreement and meet the publishing requirements in your State.	Easy
What happens if someone wants to sue the business? Am I protected?	Corporation is a separate legal entity & if someone sues and wins, they cannot come after your assets. This is called "limited liability protection."	Same as Corporation.	You and the business entity are the same person. If your business is sued and the business does not have enough money, they can come after you.
Will I be subject to tax on the income the business makes and my personal income? Said another way, will I be subject to "Double taxation."?	Yes unless you elect for S-Corp status. The election is free but if you elect this you must be a resident for tax purposes and you will have other ownership restrictions.	No. The income from the business is automatically passed through to your personal income tax return so you are not subject to double tax.	No
Can I make an S-election?	Yes	Yes	No
Do I pay Income taxes?	Yes	Yes	Yes

IAN E. SCOTT, ESQ.

(212) 223-2964

<http://www.legalservicesincorporated.com>

	Corporation	LLC	Sole Proprietorship
Do I have to pay Self-Employment Taxes?	Yes – but if you make an S election, you will only pay self-employment taxes on the amount you designate as your salary. (This salary must be reasonable to qualify)	Yes – but you can make an S – election so that you only pay self-employment tax on the amount you designate as your salary.	Yes
If I am a Professional, do I have to set up as a Special Entity?	Yes. You must set up a professional corporation and the requirements will be outlined by your State. Also, you must buy malpractice insurance.	Yes. You must set up a professional LLC and the requirements will be set up by your state. Also, you must buy malpractice insurance.	No