



Schlabig

CERTIFIED PUBLIC ACCOUNTANTS

Confidence Is Close By

ISSUE	C CORPORATION	S CORPORATION	PARTNERSHIP	LIMITED LIABILITY COMPANY
Type of Owners	Open	Limited to individuals, certain trusts and some nonprofit organizations. May have corporate owner only if owner is S Corporation and owns 100% of shares.	Open	Open
Number of Owners	Open	No more than 100. Can elect to treat "members of a family" as one shareholder.	No less than 2.	Open
Liability	Limited to investment.	Limited to investment.	Limited to investment except for general partner who has unlimited liability.	Limited to investment.
Accounting Year	Flexible	Generally calendar year.	Generally calendar year.	Generally calendar year.
Fringe and Retirement Benefits	Shareholder officers can qualify.	Limitations on shareholder.	Limitations on partner.	Limitations on member.
Self-Employment Tax	Not applicable to dividends.	Not applicable to share of corporate income.	Applicable to share of partnership income for general partner; not applicable to limited partners.	Open issue, but may follow partnership lead, applying only to member acting similarly to general partner.
Taxation of Operations	Double Tax: Corporation on income and shareholder on distribution; corporate income taxed up to maximum 35% federal rate; dividends 15% (at least through 2010).	Single Tax on income flow-through to shareholder. Taxed up to maximum 35% federal rate.	Single tax on income flow-through to partner. Taxed up to maximum 35% federal rate.	Single tax on income flow-through to member. Taxed up to maximum 35% federal rate.

ISSUE	C CORPORATION	S CORPORATION	PARTNERSHIP	LIMITED LIABILITY COMPANY
Allocation of Income/Losses	None. Losses trapped at entity level and do not flow through to shareholders.	Pro-rata; use of losses limited to basis. Income allocation result in taxable income even if not distributed.	Flexible; use of losses limited to basis. Income allocations result in taxable income even if not distributed.	Flexible; use of losses limited to basis. Income allocations result in taxable income even if not distributed.
Determination of Basis	Capital contributed.	Capital plus profits less losses and distributions; increase by shareholder loan.	Capital plus profits less losses and distributions; increase by partner loans and by share of partnership third-party non-recourse debt.	Capital plus profits less losses and distributions; increase by member loans and by share of LLC third-party non-recourse debt.
Taxation of Cash Distributions	Shareholder: maximum 15% rate on dividends to extent of corporate earnings and profits; dividends pro-rata.	No tax effect to extent of basis; then capital gain. Dividends must be pro-rata.	No tax effect to extent of basis; then capital gain. Distributions flexible.	No tax effect to extent of basis; then capital gain. Distributions flexible.
Taxation of Property Distributions	Corporation taxed on appreciation in property; shareholder taxed as dividend and gets fair market value basis in property.	Gain triggered on appreciation in property and taxed at shareholder level; shareholder basis increases by gain, decreases by value of property, and gets fair market value basis in property.	No gain to partnership; partner takes carryover basis in property and reduces basis in partnership interest by basis of property received.	No gain to LLC; member takes carryover basis in property and reduces basis in LLC interest by basis of property received.
Sale of Business	Double tax if assets sold and corporation liquidated; single tax if stock sold but buyer gets no basis step-up in assets.	Single tax to shareholder.	Single tax to partner.	Single tax to member.

ISSUE	C CORPORATION	S CORPORATION	PARTNERSHIP	LIMITED LIABILITY COMPANY
Use of Tax-Free Reorganization to Accomplish Sale	Yes	Yes	No	No
Conversion of Entity	If convert to S corporation, no tax but 10 year built-in gains tax potential to extent any asset appreciated at date of conversion and disposed of within 10 years (double tax consequences). If convert to partnership or LLC, corporation must be liquidated, triggering double level tax.	If convert to partnership or LLC, corporation must liquidate, triggering tax to shareholder. Can convert to C corporation without tax.	Generally no tax if convert to LLC or if incorporated.	Generally no tax if incorporated.
Manufacturers' Deduction	Eligible; deduction may not exceed 50% of employer's W-2 wages for year.	Eligible; deduction may not exceed 50% of employer's W-2 wages for year.	Eligible; partners generally do not receive W-2 income, thereby reducing amount of the potential deduction.	Eligible; members generally do not receive W-2 income, thereby reducing the amount of the potential deduction.
Section 1244 Stock	Ordinary loss potential on stock issued for first \$1 million of capital.	Ordinary loss potential on stock issued for first \$1 million of capital.	Inapplicable	Inapplicable
Gain Rollover on Qualified Small Business Stock	Potential to defer gain on qualifying stock sold if reinvest in certain small business stock within 60 days.	Inapplicable	Inapplicable	Inapplicable