

Considerations for Entity Selection

	Size	Taxation	Liability	Paperwork	Raising Capital
Corporation	May have one or more shareholders. Largest and most popular of all business entities. Has a complex structure of directors, officer and employees. Decisions are made by shareholders and board of directors.	There are two types of corporations: C corporations and S corporations. C corporations experience double taxation because corporate profits are taxed as well as the dividends distributed to shareholders. S corporations may bypass double taxation by passing the ownership interest in corporate profits and losses through to the shareholders' personal income tax return.	Liability is limited to your ownership interest in the business. For instance, if your corporation gets hit with a lawsuit, as long as your business has followed all formalities to remain a corporation, your personal assets should not be in harm's way.	Requires the most paperwork of all business entity types. Must file articles of incorporation, prepare bylaws and keep record of minutes, issue initial stock, elect officers and form board of directors. Statement of Information must be updated each year with the Secretary of State along with any other appropriate corporate filings.	Easier for a corporation compared to other business entities. If a corporation wants to raise more money, it can sell more company stock or issue a new class of stock in the case of a C corporation. S corporations can issue only one class of stock. Corporations also seem to have more credibility with investors and lending institutions.
LLC	May have one owner or unlimited number of members (the owners). In addition to members, LLC's may have managers and employees who are responsible for the day to day operations.	An LLC is not a separate tax entity like a corporation. An LLC experiences "pass through" taxation where all the profits and losses pass through the business to the LLC owners who report this information on their personal tax returns. Subject to CA limited liability Company fee when total annual income is at least \$250,000.	Liability for an LLC is the same as a corporation's liability: liability is limited to your ownership interest.	Much less paperwork than a corporation. LLC's are encouraged to create an operating agreement that indicates ownership interests, management as well as how profits of the business should be divided.	LLC's lack the ability to issue stock. Rather, you obtain membership units. If you have a new small business with few owners or stockholders, you may find it difficult to raise capital even if you are a corporation. This is because lending institutions prefer to lend to established businesses with a proven track record of performance in their industry.

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Partnership	Must have at least two owners. Sometimes, a partnership will consist of several business owners. Partnerships may have employees but the partners are usually involved in the operation of the business.	Partnerships experience the same “pass through” taxation as LLC’s.	No liability protection in a general partnership. All partners are jointly responsible for occurrences in the partnership unless otherwise stated. Limited liability partnerships vary in liability protection.	Require very little paperwork and one of the easiest business entities to form. It’s advisable to create a partnership agreement that specifies how you will manage the business and split ownership interests and profits.	Partnerships also lack the ability to issue stock, like LLC’s.