

## helping small business owners succeed

**In** today's world, incorporation is an essential step for business owners. It helps protect their personal assets and provides additional benefits to the business. Understanding incorporation, however, is as important as undertaking it.

BizFilings is dedicated to helping educate entrepreneurs and small business owners on the business formation choices available, the incorporation process itself, and the ongoing requirements corporations and LLCs face. While this guide focuses on business formation, BizFilings offers information for all stages of business.

Providing new and growing businesses with access to both comprehensive information and easy-to-use and affordable services has helped BizFilings become the industry's leading online incorporation service provider. It has also helped tens of thousands of small business owners start their businesses on the right foot, and has turned them into satisfied customers.

We wish you success with your business and also hope you will become a satisfied BizFilings' customer, too.



## business entity comparison table

This table provides an at-a-glance reference to how the most common business entity types — sole proprietorship, general partnership, C corporation, S corporation, and LLC — compare in a number of key characteristics.

characteristics	sole proprietorship	general partnership	limited partnership	limited liability partnership	c corporation	s corporation	limited liability company
formation	No state filing required.	Agreement between two or more parties. No state filing required.	State filing required.	State filing required. In California the use of LLP is limited to accountants & lawyers.	State filing required.	State filing required.	State filing required.
duration of existence	Dissolved if entity ceases doing business or upon death of the sole proprietor.	Dissolves upon death or withdrawal of a partner, unless safeguards are specified in a partnership agreement.	Perpetual	Dependent on the requirements imposed by the state of formation.	Perpetual	Perpetual	Dependent on the requirements imposed by the state of formation.
liability	Sole proprietor has unlimited liability.	Partners have unlimited liability.	At least one general partner has unlimited liability	partners are not typically responsible for the debts of the LLP	Shareholders are typically not responsible for the debts of the corporation.	Shareholders are typically not responsible for the debts of the corporation.	Members are not typically responsible for the debts of the LLC.
operational requirements	Relatively few legal requirements.	Relatively few legal requirements.	Some formal requirements, but less formal than corporations.	Delaware, Georgia, Pennsylvania, Texas, and Virginia require an LLP to carry insurance or an escrow	account to cover liabilities.	Board of directors, annual meetings, and annual reporting.	Board of directors, annual meetings, and annual reporting.
management	Sole proprietor has full control of management and operations.	Typically each partner has an equal voice, unless otherwise arranged.	Limited partners are excluded from management unless they serve on the board of directors	All partners have the right to manage the business directly	Managed by directors who are elected by shareholders.	Managed by directors who are elected by s shareholders.	Members have an operating agreement that outlines management.
taxation	Not a taxable entity. Sole proprietor pays all taxes.	Not a taxable entity. Each partner pays tax on his/her share of income and can deduct losses against other sources of income.	Files taxes as a separate entity, must meet certain criteria to avoid being taxed as a corporation	Files taxes as a separate entity, must meet certain criteria to avoid being taxed as a corporation	Taxed at the entity level. If dividends are distributed to shareholders, dividends are also taxed at the individual level.	No tax at the entity level. Income/loss is passed through to shareholders.	If properly structured there is no tax at the entity level. Income/loss is passed through to members.
pass-through income/loss	Yes	Yes	Yes, if requirements are fulfilled	Yes, if requirements are fulfilled	No	Yes	Yes
double taxation	No	No	No	No	Yes, if income distributed to shareholders as dividends.	No	No
cost of creation	None	None	State filing fee required	state filing fee required	State filing fee required.	State filing fee required.	State filing fee required.
raising capital	Often difficult unless individual contributes funds.	Contributions can be made from partners, and more partners can be added.	Contributions can be made from partners, and more partners can be added	contributions can be made from partners, and more partners can be added	Shares of stock are sold to raise capital.	Shares of stock are sold to raise capital.	Possible to sell interests, though subject to operating agreement restrictions.
transferability of interest	No	No	Yes, pending approval of other limited partners and the general partners	Possible, dependent on operating agreement restrictions	Shares of stock are easily transferred	Yes, observing IRS regulations on who can own stock.	Possible, dependent on operating agreement restrictions.