

# A QUICK OVERVIEW OF BUSINESS FORMS AND FEDERAL TAX LAW

This overview provides some basic information on business form and federal taxation. There are other options and details that apply to each form of business. For example, a limited liability company may choose to be treated as a corporation for tax purposes because it provides advantages in terms of deductions that a partnership tax status does not. This chart should help you understand the basics and prepare you for a meeting with your attorney who is equipped to help you decide what business form is best suited to your personal tax situation.

- **Sole Proprietorship**

*Entity:* Not an entity separate from the owner, so no separate tax return.

*Filing:* Owner includes the operations of the sole proprietor-ship on his/her individual tax return.

*Federal Employer Tax Number:* If a sole proprietor has employees, then a tax number is required.

*Multiple Owners:* No. If the business has multiple owners it is no longer a sole proprietor-ship.

*Taxable Year:* Generally, the same as the owner's, which is usually a calendar year.

- **Partnership**

*Entity:* Not separate taxable entity, but must file an information tax return.

*Filing:* Partners include their share of the income, gain, loss, deductions, and credits of the partnership on their personal tax return.

*Federal Employer Tax Number:* Required.

*Multiple Owners:* Requires two or more people who carry on a business for profit.

*Taxable Year:* If all partners do not have the same taxable year, the partnership will have to adopt the taxable year of majority interest or a calendar year if there is no majority interest.

- **S Corporation**

*Entity:* Treated as a partnership for tax purposes but may not have more than 100 shareholders

*Filing:* Shareholders include their share of the income, gain, loss, deductions, and credits of the corporation on their personal tax return.

*Federal Employer Tax Number:* Required.

*Multiple Owners:* Usually more than one shareholder. No more than 100 shareholders, who must be individuals, or the IRS will not treat corporation as a partnership for tax purposes.

*Taxable Year:* Can usually choose its taxable year.

- **C Corporation**

*Entity:* A taxable entity separate from its shareholders that may have an unlimited number of shareholders

*Filing:* Corporation must file and pay taxes at the corporate level; the shareholders must pay taxes on the distributions they receive.

*Federal Employer Tax Number:* Required.

*Multiple Owners:* Usually more than one shareholder.

*Taxable Year:* Can usually choose its taxable year.

- **Limited Liability Company**

*Entity:* Not always a separate taxable entity, but must file an information tax return.

*Filing:* Depending on its election, may choose to be taxed as a partnership or a corporation.

*Federal Employer Tax Number:* Required.

*Multiple Owners:* No. Every state except Massachusetts allows single member LLC.

*Taxable Year:* If members do not all have the same taxable year, the LLC must adopt the taxable year of majority interest or a calendar year if there is no majority interest.