

# At-a-Glance Business Structure Guide

	Income Taxation	Liability	Self-Employment Tax	Deductibility Of Losses	Special Considerations
<b>Sole Proprietorships</b>	Income is included on the owner's individual tax return.	The owner generally is not protected from liability.	The owner's net income is fully subject to self-employment tax.	If the owner actively participates, losses are fully deductible against other income. The owner may carry back or forward net operating losses.	Because business income or loss flows through to the owner's personal tax return, other items (such as deduction limitations) can be affected.
<b>Partnerships</b>	Income flows through to each partner's individual tax return.	General partners are subject to unlimited liability. Limited partners have liability to the extent of their investment.	General partners are subject to the tax on partnership income, but limited partners usually are not subject.	Generally, partners can deduct active partnership losses against other income, up to their basis, and passive losses only against passive income.	Income from a partnership is taxable regardless of whether partners receive an equivalent amount of cash as a distribution.
<b>Limited Liability Companies (LLCs)</b>	Recent check-the-box regulations have made qualifying an LLC for partnership taxation much simpler.	Members' liability is limited — similar to that of corporate shareholders.	Members are generally subject to the tax except those qualifying as limited partners had the entity been a limited partnership.	If an LLC is taxed as a partnership, the loss rules follow partnership rules.	Generally, LLCs have the flexibility of partnerships with the limited liability of corporations.
<b>S Corporations</b>	Income flows through to each shareholder's individual tax return. In some instances, taxation can occur at the entity level.	Shareholders' personal liability is limited.	Shareholders with income from their proportionate shares of company earnings are not subject to the tax.	Shareholders can deduct losses to the extent of their basis, but — unlike partnerships — shareholders' proportionate debt share does not increase their basis.	The maximum income tax rate (39.6%) is higher than for C corporations (35% once the lower graduated brackets are phased out).
<b>C Corporations</b>	C corporations are taxed on their earnings and shareholders are taxed on any dividends they receive.	Shareholders' personal liability is limited.	Does not apply.	As a separate taxpayer, corporations can deduct losses or carry them back or forward to offset income in profitable years.	Income can be subject to an alternative minimum tax of 20%.