COMPARISONS AND CONTRASTS FOR VARIOUS TYPES OF LEGAL BUSINESS ENTITY FORMATIONS

	Sole Proprietorship	General or Limited Partnership	Limited Liability Company	C Corporation	S Corporation
Operation and formation.	Simplest to establish and operate	Relatively simple and informal, except that a limited partnership must have a written agreement.. MCA '35-10-101	Generally similar to a partnership, but required to file articles of organization. MCA '35-8-101	Requires most formality in establishment and operation. MCA '35-1-113	Same as a regular corporation but requires close oversight by a tax adviser (an additional cost). IRC 1361
Liability for Debts, Taxes, and Other Claims.	Owner has unlimited personal liability.	General partners have unlimited personal liability, limited partners are only at risk to the extent of their investment.	Members are generally not liable for an LLC's debts. As a practical matter, members often guarantee loans.	Stockholders are not generally liable for corporate debts, but often have to guarantee loans, as a practical matter, if the corporation borrows money. Also, corporate officers may be liable to the IRS for failure to withhold and pay withholding taxes on employers' wages.	Stockholders are not generally liable for corporate debts, but often have to guarantee loans, as a practical matter, if the corporation borrows money. Also, corporate officers may be liable to the IRS for failure to withhold and pay withholding taxes on employees' wages.
Federal Income Taxation of Business Profits.	Taxed to the owner at individual tax rates of up to 39.6% or more, depending on exemptions and deductions which may phase out.	Taxed to partners at their individual tax rates.	Taxed to owners at their individual tax rates, unless the IRS treats the LLC as a corporation.	Taxed to the corporation at rates higher than those of individuals -- maximum of 34% or 39% in 1993, except for very large corporations.	Taxed to individual owners at their individual rates -- certain gains are taxable to the corporation as well.
Double Taxation if Profits Withdrawn from Business.	No.	No.	No, unless the LLC is treated as a corporation.	Yes, but not on reasonable compensation paid to owners who are employees of the corporation.	No, in general.
Deduction of Losses.	Yes. May be subject to "passive loss" restrictions.	Yes. But limited partner's deductions cannot exceed amount invested as a limited partner -- except for real estate, in some instances. Losses are generally restricted by the "passive loss" rule	Yes, generally, if treated as a partnership by IRS. No, if treated as a corporation by IRS.	No. Corporations must carry over initial losses to offset future profits, if any.	Yes, in general, for federal tax purposes. But not for state tax purposes in all states. Loss for a shareholder limited to investment in stock plus amount loaned to the corporation. Losses may be subject to "passive loss" restrictions.
Social Security Tax.	15.3% of owner's self-employment earnings in 1994 on first $60,600 of income, plus 2.9% on earnings of more than $60,600, half of which is now deductible for income tax purposes.	15.3% of each partner's share of self-employment earnings from the business in 1994 on up to $60,600 in earnings are taxed, plus 2.9% tax on earnings over $60,600. Half of tax is deductible for income tax.	No regulations issued, but probably same as for a partnership, if treated as a partnership by IRS. Same as a corporation, if the LLC is treated as a corporation.	Owner/Employee of corporation pays 7.65% on his or her salary and corporation pays 7.65%. Total Social Security (FICA) tax on employer + employee is 15.3% of employee's first $60,600 of wages (in 1994). Employee and corporation each pay 1.45% on wages above $60,600.	Owner/employee of corporation pays 7.65% on his or her salary and corporation pays 7.65%. Total Social Security (FICA) tax on employer + employee is 15.3% of employee's first $60,600 of wages (in 1994). Employee and corporation each pay 1.45% on wages above $60,600.
Unemployment Taxes on Earnings of Business Owner	None.	None.	No regulations issued. Probably treated as a partnership for inc. tax purposes by IRS.	Yes. State and federal unemployment taxes apply to salaries paid to owners.	Yes. State and federal unemployment taxes apply to salaries paid to owners.
Retirement Plans.	Keogh plan. Deductions, other features now generally the same as for corporate pension and profit sharing plans. Proprietor cannot borrow from Keogh Plan.	Keogh plan. Same as for proprietorships. A 10% partner cannot borrow from Keogh Plan.	No regulations issued, but probably same as a partnership, if treated as a partnership by IRS.	Corporate retirement plans are no longer significantly better than Keogh plans. Deduction limits are same now as for Keogh, but participants can borrow from plan.	Plans now essentially identical to regular corporate retirement plans, except that shareholders/employee (5% shareholder) of S corporation cannot borrow from plan.
Tax Treatment of Medical and Disability.	Not deductible, except part of medical expenses may be an itemized deduction on owner's tax return, including medical insurance premiums.	Not deductible, except part of medical expenses may be an itemized deduction on owner's tax return, including medical insurance premiums.	No regulations issued, but may be treated as a partnership, if the LLC is treated as a partnership by IRS.	Corporations may be allowed to deduct corporation medical insurance premium or reimbursements paid under medical reimbursement plan. Generally not taxable to the employee, even if employee is an owner. Similar treatment for disability and group-term life insurance plans.	Fringe benefits for 2% shareholders are deductible by corporation, but must be included in income of the shareholder who may be allowed to deduct 25% of medical insurance from adjusted gross income.
Taxation of Dividends Received on Investments.	Dividends received on stock investments are fully taxable to owner.	Dividends taxable to individual partners. See proprietorship.	Dividends taxable to individual members, if the LLC is treated as a partnership.	Dividends are taxable to the corporation; however, 70% of the dividends received are generally free of federal income tax (unless stock is purchased with borrowed money) an important tax advantage.	Dividends taxable to individual shareholders of the S corporation, as in the case of a partnership.