Institute for Entrepreneurship

Business Structures Comparison Chart

SOLE PROPRIETORSHIP:	GENERAL PARTNERSHIP:
Advantages: • Minimum legal restrictions • Ease of formation • Low start-up costs • Sole ownership of profits • Maximum freedom in decision-making	**Advantages:** • Ease of formation • Direct rewards • Broader management base due to greater number of owners
Disadvantages: • Unlimited liability • Less available capital • Relative difficulty in obtaining long-term financing	**Disadvantages:** • Unlimited liability of general partners • Divided authority
No. of Owners Allowed: • Only 1 owner	**No. of Owners Allowed:** • At least 2; no upper limits
North Carolina Filing Requirement: • Trade Name Registration	**North Carolina Filing Requirement:** • Trade Name Registration
Formation: • Taxable	**Formation:** • Non-taxable, unless disguised sale or the partner is relieved from debt
Taxation Issues: • Not subject to federal income tax at entity level; tax items reported on Schedule C of owner's personal return	**Taxation Issues:** • Not subject to federal income tax at entity level; tax items passed through to the partners
Liquidation: • Not applicable	**Liquidation:** • Taxable to the extent cash distributions exceed a partner's tax basis

Prepared by Parker, Poe, Adams and Bernstein

LIMITED PARTNERSHIP:	LIMITED LIABLITY COMPANY:
Advantages: • Ease of formation • Direct rewards • Broader management base due to greater number of owners	**Advantages:** • Can have a single-member LLC (a disregarded entity) • Limited disclosure of owners • No advance IRS filings • Ease in transfer of ownership • Can use different classes of owners • Lower filing fees
Disadvantages: • Unlimited liability of general partners • Divided authority • Difficulty disposing of limited partnership interest	**Disadvantages:** • Large numbers of owners complicates status • Death, bankruptcy or withdrawal of owner can cause problems • Doing business in other states may require filing individual tax returns in each state
No. of Owners Allowed: • At least 1 general partner and 1 limited partner • No upper limits	**No. of Owners Allowed:** • At least 1 • no upper limits
North Carolina Filing Requirement: • Certificate of limited partnership	**North Carolina Filing Requirement:** • Articles of organization
Formation: • Non-taxable, unless disguised sale or the partner is relieved from debt	**Formation:** • Non-taxable, unless disguised sale or the member is relieved from debt
Taxation Issues: • Not subject to federal income tax at entity level; tax items passed through to the partners	**Taxation Issues:** • Not subject to federal income tax at entity level; tax items passed through to the partners
Liquidation: • Taxable to the extent cash distributions exceed a partner's tax basis	**Liquidation:** • Taxable to the extent cash distributors exceed a member's tax basis

"C" CORPORATION:	"S" CORPORATION:
Advantages: • Separate legal entity • Limited liability for stockholders • Unlimited life of business • Relative ease in raising capital • Transfer of ownership through sale of stock • Can use different classes of stock	**Advantages:** • Limited liability for shareholders • Unlimited life of business
Disadvantages: • Organizational complexity • Expense activities limited by charter • Extensive regulation, record-keeping requirements • Double taxation of profits and dividends	**Disadvantages:** • Restrictions on number and type of shareholders • Limitations on classes of stock that may be issued
No. of Owners Allowed: • At least 1 • No upper limits	**No. of Owners Allowed:** • At least 1 • Upper limit is 75
North Carolina Filing Requirement: • Articles of Incorporation	**North Carolina Filing Requirement:** • Articles of incorporation
Formation: • Non-taxable (except to the extent of debt relief) if the transferors meet the control test of Section 351 of the Internal Revenue Code	**Formation:** • Non-taxable (except to the extent of debt relief) if the transferors met the control test of Section 351 of the Internal Revenue Code
Taxation Issues: • Subject to federal income tax at entity level and upon shareholders when receive dividends	**Taxation Issues:** • Not subject to federal income tax at entity level • Tax items passed through to shareholders
Liquidation: • Taxable to corporation and shareholders to extent distribution exceeds stock basis	**Liquidation:** • Generally non-taxable at corporate level and taxable at shareholder level to extent distribution exceeds stock basis