



## Business Structures Comparison Chart

| <b>SOLE PROPRIETORSHIP:</b>  | <b>GENERAL PARTNERSHIP:</b>  |
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| <p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• Minimum legal restrictions</li> <li>• Ease of formation</li> <li>• Low start-up costs</li> <li>• Sole ownership of profits</li> <li>• Maximum freedom in decision-making</li> </ul> | <p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• Ease of formation</li> <li>• Direct rewards</li> <li>• Broader management base due to greater number of owners</li> </ul> |
| <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• Unlimited liability</li> <li>• Less available capital</li> <li>• Relative difficulty in obtaining long-term financing</li> </ul>   | <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• Unlimited liability of general partners</li> <li>• Divided authority</li> </ul>  |
| <p><b>No. of Owners Allowed:</b></p> <ul style="list-style-type: none"> <li>• Only 1 owner</li> </ul>  | <p><b>No. of Owners Allowed:</b></p> <ul style="list-style-type: none"> <li>• At least 2; no upper limits</li> </ul>   |
| <p><b>North Carolina Filing Requirement:</b></p> <ul style="list-style-type: none"> <li>• Trade Name Registration</li> <li>• (DBA) - Not Required, but recommended</li> </ul>  | <p><b>North Carolina Filing Requirement:</b></p> <ul style="list-style-type: none"> <li>• Trade Name Registration</li> </ul>   |
| <p><b>Formation:</b></p> <ul style="list-style-type: none"> <li>• Taxable</li> </ul>   | <p><b>Formation:</b></p> <ul style="list-style-type: none"> <li>• Non-taxable, unless disguised sale or the partner is relieved from debt</li> </ul>   |
| <p><b>Taxation Issues:</b></p> <ul style="list-style-type: none"> <li>• Not subject to federal income tax at entity level; tax items reported on Schedule C of owner's personal return</li> </ul>  | <p><b>Taxation Issues:</b></p> <ul style="list-style-type: none"> <li>• Not subject to federal income tax at entity level; tax items passed through to the partners</li> </ul>               |
| <p><b>Liquidation:</b></p> <ul style="list-style-type: none"> <li>• Not applicable</li> </ul>  | <p><b>Liquidation:</b></p> <ul style="list-style-type: none"> <li>• Taxable to the extent cash distributions exceed a partner's tax basis</li> </ul>   |

| <b>LIMITED PARTNERSHIP:</b>   | <b>LIMITED LIABILITY COMPANY:</b>  |
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| <p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• Ease of formation</li> <li>• Broader management base due to greater number of owners</li> <li>• Not used very often - LLCs are more popular</li> </ul> | <p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• Ease of formation and management</li> <li>• Can have a single-member LLC (a disregarded entity)</li> <li>• Limited disclosure of owners</li> <li>• Ease in transfer of ownership</li> <li>• Can use different classes of owners</li> <li>• Very flexible - can have different classes of ownership</li> </ul> |
| <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• Unlimited liability of general partners</li> <li>• Divided authority</li> <li>• Difficulty disposing of limited partnership interest</li> </ul>     | <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• Higher filing and annual fees</li> <li>• Death, bankruptcy or withdrawal of owner require planning ahead</li> <li>• Doing business in other states may require filing individual tax returns in each state</li> </ul>  |
| <p><b>No. of Owners Allowed:</b></p> <ul style="list-style-type: none"> <li>• At least 1 general partner and 1 limited partner</li> <li>• No upper limits</li> </ul>  | <p><b>No. of Owners Allowed:</b></p> <ul style="list-style-type: none"> <li>• At least 1</li> <li>• no upper limits</li> </ul>   |
| <p><b>North Carolina Filing Requirement:</b></p> <ul style="list-style-type: none"> <li>• Certificate of limited partnership</li> </ul>   | <p><b>North Carolina Filing Requirement:</b></p> <ul style="list-style-type: none"> <li>• Articles of organization</li> </ul>  |
| <p><b>Formation:</b></p> <ul style="list-style-type: none"> <li>• Non-taxable, unless disguised sale or the partner is relieved from debt</li> </ul>  | <p><b>Formation:</b></p> <ul style="list-style-type: none"> <li>• Non-taxable, unless disguised sale or the member is relieved from debt</li> </ul>  |
| <p><b>Taxation Issues:</b></p> <ul style="list-style-type: none"> <li>• Not subject to federal income tax at entity level; tax items passed through to the partners</li> </ul>  | <p><b>Taxation Issues:</b></p> <ul style="list-style-type: none"> <li>• Not subject to federal income tax at entity level; tax items passed through to the partners</li> </ul>   |
| <p><b>Liquidation:</b></p> <ul style="list-style-type: none"> <li>• Taxable to the extent cash distributions exceed a partner's tax basis</li> </ul>  | <p><b>Liquidation:</b></p> <ul style="list-style-type: none"> <li>• Taxable to the extent cash distributions exceed a member's tax basis</li> </ul>  |

| <b>“C” CORPORATION:</b>  | <b>Tax Election as “S” CORPORATION:</b>  |
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| <p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• Separate legal entity</li> <li>• Limited liability for stockholders</li> <li>• Relative ease in raising capital</li> <li>• Transfer of ownership through sale of stock</li> <li>• Can use different classes of stock</li> </ul> | <p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• Limited liability for shareholders</li> <li>• Possible tax benefits to owners (work with CPA)</li> </ul>  |
| <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• Organizational complexity</li> <li>• Extensive regulation, record-keeping requirements</li> <li>• Double taxation of profits and dividends</li> </ul>  | <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• Restrictions on number and type of shareholders</li> <li>• Limitations on classes of stock that may be issued</li> </ul>                     |
| <p><b>No. of Owners Allowed:</b></p> <ul style="list-style-type: none"> <li>• At least 1</li> <li>• No upper limits</li> </ul>   | <p><b>No. of Owners Allowed:</b></p> <ul style="list-style-type: none"> <li>• At least 1</li> <li>• Upper limit is 100</li> </ul>  |
| <p><b>North Carolina Filing Requirement:</b></p> <ul style="list-style-type: none"> <li>• Articles of Incorporation</li> </ul>   | <p><b>North Carolina Filing Requirement:</b></p> <ul style="list-style-type: none"> <li>• Articles of incorporation</li> </ul>   |
| <p><b>Formation:</b></p> <ul style="list-style-type: none"> <li>• Non-taxable (except to the extent of debt relief) if the transferors meet the control test of Section 351 of the Internal Revenue Code</li> </ul>  | <p><b>Formation:</b></p> <ul style="list-style-type: none"> <li>• Non-taxable (except to the extent of debt relief) if the transferors met the control test of Section 351 of the Internal Revenue Code</li> </ul> |
| <p><b>Taxation Issues:</b></p> <ul style="list-style-type: none"> <li>• Subject to federal income tax at entity level and upon shareholders when receive dividends</li> </ul>  | <p><b>Taxation Issues:</b></p> <ul style="list-style-type: none"> <li>• Not subject to federal income tax at entity level</li> <li>• Tax items passed through to shareholders</li> </ul>                           |
| <p><b>Liquidation:</b></p> <ul style="list-style-type: none"> <li>• Taxable to corporation and shareholders to extent distribution exceeds stock basis</li> </ul>  | <p><b>Liquidation:</b></p> <ul style="list-style-type: none"> <li>• Generally non-taxable at corporate level and taxable at shareholder level to extent distribution exceeds stock basis</li> </ul>                |