

| Topic | S Corporation | C Corporation | LLC |
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| Qualifications | No more than 100 shareholders Owners must be US citizens or green card holders or have filed personal US tax returns for the last 2 years No more than 25% passive income (income from rents/investments) Can only have one class of stock (can still have voting and non voting stock) | No restrictions – can be owned by individuals, corporations or foreigners | No restrictions – can be owned by individuals, corporations or foreigners |
| Liability | Limited to amount invested | Limited to amount invested | Limited to amount invested |
| Federal Tax Treatment | Pass through entity Taxed once on shareholders No corporate level taxation Still file corp tax return | Double taxation Corp pays taxes Shareholders pay taxes on dividends | Pass through entity Members pay taxes No LLC tax return |
| Self Employment Tax | Minimized by paying reasonable salary and taking dividends | None (but double tax, see above) | Assessed on 100% of the profits if a single member LLC |
| Share of Profits & Losses | Shareholders receive percentage of profits & losses based on percentage of shares owned | Shareholders receive percentage of profits & losses based on percentage of shares owned | Share of profits & losses can be initially set by operating agreement and later by other agreement |
| Recordkeeping | Board annual minutes Shareholder annual minutes Annual report (fee typically \$100) | Board annual minutes Shareholder annual minutes Annual report (fee typically \$100) | Board and Shareholder annual minutes not required but recommended Annual report (fee typically \$250) |
| Advantages | If you qualify then this is recommended Cheaper to set up than LLC Cheaper annual report fee Better tax treatment than C Corp More established law (less uncertainties than LLC) | Easier to go public Cheaper to set up than LLC Cheaper annual report fee Better tax treatment than C Corp More established law (less uncertainties than LLC) | Flexibility of profit distributions Harder for personal creditors to get ownership interests Good for foreign citizen No limit on passive income Taxed as partnership if 2+ owners (not married) |
| Disadvantages | Limit on passive income Must do annual minutes Must file corp tax return Must qualify | Less flexible Higher taxes Must do annual minutes | Higher filing fee Higher annual report fee Higher late penalties No tax benefits for single owners Possible less liability benefits for single owners Less established laws (more uncertainty) |
| Recommended | If you qualify then this is typically the best bet Best tax and liability protection A little more paperwork but the tax saving are usually worth it | If you plan to go public Try to avoid the double taxation if you can | If holding real estate or long term investments If varying income distributions from year to year More flexibility but most clients don't take advantage of this |
| Items Needed or Recommended | Indemnification Agreement Shareholder Agreement EIN Business Registration New Hire Reporting Forms Unemployment Report County Recording Corporate Counsel | Indemnification Agreement Shareholder Agreement EIN County Recording Corporate Counsel | Indemnification Agreement Operating Agreement EIN County Recording Corporate Counsel |