

LEGAL FORM OF BUSINESS ALTERNATIVES: *Advantages and Drawbacks*¹

Type of Entity	Main Advantages	Main Drawbacks
Sole Proprietorship	<p>Simple and inexpensive to create and operate</p> <p>Owner reports profit or loss on his or her personal tax return</p>	Owner personally liable for business debts
General Partnership	<p>Simple and inexpensive to create and operate</p> <p>Owners (partners) report their share of profit or loss on their personal tax returns</p>	Owners (partners) personally liable for business debts
Limited Partnership	<p>Limited partners have limited personal liability for business debts as long as they don't participate in management</p> <p>General partners can raise cash without involving outside investors in management of business</p>	<p>General partners personally liable for business debts</p> <p>More expensive to create than general partnership</p> <p>Suitable mainly for companies that invest in real estate</p>
Regular Corporation	<p>Owners have limited personal liability for business debts</p> <p>Fringe benefits can be deducted as business expense</p> <p>Owners can split corporate profit among owners and corporation, paying lower overall tax rate</p>	<p>More expensive to create than partnership or sole proprietorship</p> <p>Paperwork can seem burdensome to some owners</p> <p>Separate taxable entity</p>

¹ Thomas, William A., Cooperative Economist, Center for Agribusiness & Economic Development, University of Georgia, January 2006.

<p>S Corporation</p>	<p>Owners have limited personal liability for business debts</p> <p>Owners report their share of corporate profit or loss on their personal tax returns</p> <p>Owners can use corporate loss to offset income from other sources</p>	<p>More expensive to create than partnership or sole proprietorship</p> <p>More paperwork than for a limited liability company, which offers similar advantages</p> <p>Income must be allocated to owners according to their ownership interests</p> <p>Fringe benefits limited for owners who own more than 2% of shares</p>
<p>Professional Corporation</p>	<p>Owners have no personal liability for malpractice of other owners</p>	<p>More expensive to create than partnership or sole proprietorship</p> <p>Paperwork can seem burdensome to some owners</p> <p>All owners must belong to the same profession</p>
<p>Nonprofit Corporation</p>	<p>Corporation doesn't pay income taxes</p> <p>Contributions to charitable corporation are tax deductible</p> <p>Fringe benefits can be deducted as business expense</p>	<p>Full tax advantages available only to groups organized for charitable, scientific, educational, literary, or religious purposes</p> <p>Property transferred to corporation stays there; if corporation ends, property must go to another nonprofit</p> <p>Any profit can not be passed to members</p>
<p>Limited Liability Company</p>	<p>Owners have limited personal liability for business debts even if they participate in management</p> <p>Profit and loss can be allocated differently than ownership interests</p> <p>IRS rules now allow LLCs to choose between being taxed as partnership or corporation</p>	<p>More expensive to create than partnership or sole proprietorship</p> <p>State laws for creating LLCs may not reflect latest federal tax changes</p> <p>Without prior arrangement, must reorganized when membership changes</p>

<p>Professional Limited Liability Company</p>	<p>Same advantages as a regular limited liability company</p> <p>Gives state-licensed professionals a way to enjoy those advantages</p>	<p>Same as for a regular limited liability company</p> <p>Members must all belong to the same profession</p>
<p>Limited Liability Partnership</p>	<p>Mostly of interest to partners in old-line professions such as law, medicine, and accounting</p> <p>Owners (partners) aren't personally liable for the malpractice of other partners</p> <p>Owners report their share of profit or loss on their personal tax returns</p>	<p>Unlike a limited liability company or a professional limited liability company, owners (partners) remain personally liable for many types of obligations owed to business creditors, lenders, and landlords</p> <p>Not available in all states</p> <p>Often limited to a short list of professions</p>
<p>Cooperatives</p>	<p>Owners have limited personal liability for business debts</p> <p>Cooperative may avoid income tax liability</p> <p>Owners are users and maintain control of organization</p>	<p>In Georgia, limited to agriculture producers</p> <p>Equity usually provided by owner/members</p>