

## At-a-Glance Business Structure Guide

	Income Taxation	Liability	Self-Employment Tax	Deductibility of Losses	Special Considerations	Accident and Health Insurance	Dental Insurance	Long-Term Care Insurance	Cafeteria Plans (\$125 Plan)	Medical Reimbursement Plan	Group Term-Life Insurance	Disability Insurance	Deferred Compensation	Retirement Planning	Qualified Retirement Plans	Day Care Services
<b>Sole Proprietorships and Single Member LLC</b>	Income is included on the owner's individual tax return.	A sole proprietor generally is not protected from liability.	The owner's net income is fully subject to self-employment tax.	If the owner materially participates, losses are deductible up to basis and risk limitations. The owner may carry back or forward net operating losses.	Because business income or loss flows through to the owner's personal tax return, other items (such as deduction limitations) can be affected.	Generally, 100% deductible on 1040.	Generally, 100% deductible on 1040.	Generally, 100% deductible on 1040. Subject to limitations based on age of insured.	Only employees are eligible; owner is not considered an employee.	Only employees are eligible; owner is not considered an employee.	Only employees are eligible; owner is not considered an employee.	Only employees are eligible; owner is not considered an employee.	No	Only employees are eligible; owner is not considered an employee.	✓ <small>An independent contractor can participate in his or her own plan, but cannot participate in another company's plan as an independent contractor of that company.</small>	✓
<b>Partnerships</b>	Income flows through to each partner's individual tax return.	General partners are subject to unlimited liability. Limited partners have liability only to the extent of their investment or contract law.	General partners are subject to the tax on partnership income, but limited partners usually are not.	Generally, materially active partners can deduct losses, up to their basis, at risk, and passive limitations.	Income from a partnership is taxable regardless of whether partners receive an equivalent amount of cash as a distribution.	(1)	(1)	(1)	Only employees are eligible; owner is not considered an employee.	Only employees are eligible; owner is not considered an employee.	(1) (3)	(4)	No	Only employees are eligible; owner is not considered an employee.	✓	✓
<b>Limited Liability Companies (LLCs) and Limited Liability Partnerships (LLPs)</b>	Income flows through to each member's tax return unless the LLC elects to be taxed as a corporation.	Members' personal liability is limited to the amount of their investment. State law supersedes.	Members are generally subject to the tax except those qualifying as limited partners had the entity been a limited partnership.	If an LLC is taxed as a partnership, the loss rules follow partnership rules.	Generally, LLCs have the flexibility of partnerships with the limited liability of corporations.	(1)	(1)	(1)	Only employees are eligible; owner is not considered an employee.	Only employees are eligible; owner is not considered an employee.	(1) (3)	(4)	No	Only employees are eligible; owner is not considered an employee.	✓	✓
<b>S Corporations (greater than 2% shareholder)</b>	Income flows through to each shareholder's individual tax return. In some instances, taxation can occur at the entity level.	Shareholders' personal liability is limited to the amount of their investment.	Shareholders with income from their proportionate share of company earnings are not subject to the tax; salaries are subject to payroll taxes.	Shareholders can deduct losses to the extent of their basis. Passive and at-risk limitations apply.	The maximum income tax rate (35% for 2006) is the same as that for C Corporations (35% once the lower graduated brackets are phased out). Maximum of 100 shareholders.	(2)	(2)	(2)	Only employees are eligible; owner is not considered an employee.	Only employees are eligible; owner is not considered an employee.	(2) (3)	✓ (4)	✓	✓	✓	✓
<b>C Corporations</b>	C Corporations are taxed on their earnings and shareholders are taxed on any dividends they receive.	Shareholders' personal liability is limited to the amount of their investment.	Does not apply.	As a separate taxpayer, corporations can deduct losses or carry them back or forward to offset income in profitable years.	Income can be subject to an alternative minimum tax of 20%.	✓	✓	✓	✓	✓	(3)	(4)	✓	✓	✓	✓

✓ Generally deductible by entity. Benefit would not be taxable to owner.

- (1) If the payment is for partner (member) performing services for the entity, then the expense is a guaranteed payment deductible by the entity and taxable to the partner (member). If not, the payments are deemed distributions. Guaranteed payments are subject to self-employment tax.
- (2) The cost must be added to the owner's gross wages and is deductible by the S-Corp. The cost is subject to income tax (for the owner) and payroll taxes (the cost of accident and health insurance and long-term care insurance is not subject to payroll taxes).
- (3) Only the first \$50,000 of coverage is tax-free for employees.
- (4) If disability insurance is paid personally by the owner, any benefits would be tax free. If the entity pays for the insurance, any benefit would be taxable.

### DISCLAIMER

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