

WHICH FEDERAL ENTITY BEST SUITS YOUR LLC?

Single Owner LLC:

You have 3 Choices ranging from simple to complex.

Sole Proprietor	S Corporation	C Corporation
For Federal tax purposes, this is a disregarded entity, and no separate ID is required. However, if wages are paid, a federal ID is needed for employment tax purposes.	In addition to checking the box on Form 8832, you need to file form 2553 to elect status as an S Corporation.	You need to check the box on Form 8832 to elect taxation as a C corporation.
Combines ease of operation with limited liability.	This form of organization is much more rule oriented than the sole proprietor.	This business setup is designed for big business and is structured in a complicated way that requires the owner to follow many rules.
The LLC owns and protects the assets of the sole proprietorship.	The members of the LLC operated as a corporation, are employees and are paid wages. By rule, the wages need to be a fair amount for the work done.	The members of the LLC are employees and will receive a W2.
Sole proprietors have greater pass-through income because they do not have to pay themselves a wage like S corporation owners do. As such, they might qualify for a larger qualified business income deduction.	The S Corporation files a separate tax return 1120 S and passes its profits through to the individual level for taxation. These profits are not subject to Social Security. Thus, high income S corporations will be able to avoid Social Security on profits in excess of wages. Note. The IRS is currently investigating this self-employment tax avoidance with a series of audits. It is particularly important to pay a reasonable wage.	The LLC files form 1120 and pays tax on the corporate level of the profits. When the members take the profits from the corporation, they are taxed again as dividends. This form of business is not for everyone. Careful planning is essential.
On the downside, the sole proprietorship is subject to self-employment tax on net business profit. As income increases, this can become costly.	The LLC filing as an S Corporation would have business asset protection from personal debts of the members. And S Corporation that is not an LLC would not.	The LLC filing as a C corporation would have business asset protection from the debts of its members. AC corporation that is not an LLC would not note. Be careful not to include appreciable property in a corporation or it will be double taxed when it is sold.
		Members who desire a benefit package might want this form of organization because the benefits can be deducted by the company, reducing any corporate tax.

Multiple Owner LLC:

You have three choices ranging from simple to complex.

Partnership	S Corporation	C Corporation
The simplicity of the partnership organization is combined with the limited liability of the LLC.	In addition to checking the box on form 8832, you need to file form 2553 to elect the status as an S Corporation.	You need to check the box on Form 8832 to elect taxation as a C corporation.
A member may be classified as either a General Partner or a Limited partner.	This form of organization is much more rule oriented than the partnership.	This business setup is designed for big business and is structured in a complicated way that require the owners to follow many rules.
Members who have contracted authority and engage in LLC business are general partners and will pay self-employment tax on their earnings.	The members of the LLC operated as a corporation, are employees and are paid wages. By rule, the wages need to be a fair amount for the work done. Distributions to the members other than wages need to be paid in the same proportion as the ownership percentage.	The members of the LLC are employees and get a W2.
Limited partners who are passive investors, lack contract authority and work less than five hundred hours a year are not subject to self-employment tax on their earnings. The LLC files a separate partnership tax return on Form 1065, in which the income flows through to the partners and is taxed at the individual level.	The S Corporation files a separate tax Form 1120 S and passes its profits through to the individual level for taxation with Schedule K1. These profits are Not subject. To Social Security. Thus, high income S corporations will be able to avoid Social Security and profits in excess of wages. Note. The Internal Revenue Service is currently investigating this self-employment tax avoidance with a series of audits. It is especially important to pay a reasonable wage.	The LLC files form 1120 and pays tax on the corporate level of on the profits. When the members take the profits from their corporation, they are taxed again as dividends. This form of business is not for everyone, and careful planning is essential.
The LLC owns and protects the assets of the partnership, and when these assets are distributed, the appreciation will not be taxed. For this reason, LLC is organized as Partnerships are good vehicles to hold real estate.	The LLC filing as an S Corporation would have business asset protection from personal debts of the members. An S corporation that is not an LLC would not.	The LLC filing as a C corporation would have business asset protection from the debts of its members. AC corporation that is not an LLC would not. Note be careful not to include appreciable property in a corporation or it will be double taxed when it is sold.
On the downside, as income grows, so does self-employment tax for the general partner.		Members who desire a large benefit package for employees might choose this form of organization because the benefits can be deducted by the company, thus reducing corporate tax.

To ensure the protection of your LLC, make sure you follow all of the rules. Remember, the word limited in the title of this type of entity means exactly that. No business organization is 100% exempt from the actions of its owners.