

Forming your business: the differences at a glance

Incorporation means creating a new corporation. A corporation is an organization that is approved by your state to conduct business. In the eyes of the law, a corporation is a real person. It can own things and it can enter into agreements. Also, just like a person, it can sue and be sued.

Most people form corporations to protect their personal assets because the owners of a corporation are not personally responsible for the corporation's debt. This is called "limited liability protection."

Parties	LLC	S Corporation	C Corporation
Person Who Forms Business Entity	Organizer	Incorporator	Incorporator
Owners	Members	Shareholders	Shareholders
Ownership Rules	No Restrictions	Up to 100 shareholders; only one class of stock allowed; shareholders must be individuals, estates or certain trusts	No restriction
Personal Liability of the Owners	Members generally have personal liability protection	Shareholders generally have personal liability protection	Shareholders generally have personal liability protection
Federal Tax Treatment	The LLC itself is not taxed (unless chosen to be taxed); profits and losses are passed through to the members	With the filing of IRS Form 2553, a C Corporation becomes a S Corporation, where the profits and losses are passed through to the shareholders	Corporation taxed on its earnings at a corporate level and shareholders are taxed on any distributed dividends
Management	The Operating Agreement sets forth how the business is to be managed; all members or managers can be designated to manage the business	Board of Directors has overall management responsibilities; officers have day-to-day responsibility	Board of Directors has overall management responsibilities; officers have day-to-day responsibility
Administration	Many formalities but fewer than for C Corporations	Corporate formalities must be observed	Corporate formalities must be observed
Key Documents Needed for Formation	Articles of Organization; Operating Agreement	Articles of Incorporation; Bylaws; Organizational Board Resolutions; Stock Certificates; Stock Ledger; IRS & State S Corporation election	Articles of Incorporation; Bylaws; Organizational Board Resolutions; Stock Certificates; Stock Ledger