Appendix 1

Comparison of Corporate and Noncorporate Attributes

Explanation: This table illustrates the differences between operating a business as an S corporation, C corporation, proprietorship, partnership, or LLC.

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Permitted as long as there is substantial economic effect	Permitted as long as there is substantial economic effect	Not applicable	Not applicable	Not permitted	Special allocation of income/loss
Generally deductible by member to extent of basis; liabilities may increase basis for deducting losses	Generally deductible by partner to extent of basis; liabilities may increase basis for deducting losses	Deductible by proprietor	Deductible by corporation	Generally deductible by shareholder; liabilities do not increase basis for deducting losses except for direct loans from shareholder	Deductibility of losses
Taxable to member	Taxable to partner	Taxable to proprietor	Taxable to corporation	Generally taxable to shareholder	Taxability of income
Generally a nontaxable transaction; assumption of liabilities by LLC may trigger gain recognition	Generally a non-taxable transaction; assumption of liabilities by partnership may trigger gain recognition	Nontaxable transaction	Nontaxable only if transaction meets Section 351 requirements	Nontaxable only if transaction meets Section 351 requirements	Contribution of property
Limited to assets in the LLC	General partnership: unlimited; Limited partnership: general partner unlimited, limited partner limited to assets in partnership	Unlimited	Generally limited to assets in corporation	Generally limited to assets in corporation	Liability of owners
Can be either centralized or not centralized	General partnership: not centralized; Limited partnership: generally centralized	Centralized	Centralized; board of directors; corporate officers	Centralized; board of directors; corporate officers	Management
Generally subject to members' approval; can be restricted through buy/sell agreements	Generally subject to partners' approval; can be restricted through buy/sell agreements	Freely transferable by selling the entire business	Generally freely transferable; can be restricted through buy/sell agreements	Generally freely transferable; can be restricted through buy/sell agreements; must observe limitations on who can own stock	Transferability of interests
Generally no; but available in some states. Terminates for federal taxes if 50% or more of capital and profits interests are transferred during a 12-month period	Terminates if 50% or more of total interest in capital and profits is sold or exchanged within a 12-month period	Ceases on death of proprietor	Indefinite	Indefinite; but stock ownership must be monitored	Continuity of life
LLC	Partnership	Proprietorship	C Corporation	S Corporation	Attribute

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Eligible investors	Number of investors	Classes of stock/ownership interests		Cash accounting method	Self-employment income to owners	Charitable contributions	At-risk rules	Use of NOLs	Use of tax credits	Maximum tax rate	Section 179 dollar limitation applied at single level?	Accumulation of earnings	Attribute
Restricted	Limited to 100	Restricted	inventories are maintained or is a tax shelter ^b	Unrestricted unless	No	Passed through to shareholder; limits apply at shareholder level	Limits apply at shareholder level	Passed through to shareholder; limits apply at shareholder level	Passed through to shareholders to be applied against their tax	Generally taxed at individual shareholder level	No; The dollar limitation applies at the S corporation level and again at the shareholder level	No restrictions	S Corporation
Unrestricted	Unlimited	Unrestricted		Restricted	No	Deductible by corporation subject to certain percentage limits	Only applicable to certain closely held corporations	Used to offset corporate income subject to certain limits	Used to offset corporate tax	35%, with 3% increase for taxable income between \$15 million and \$18.33 million	Yes	Corporation could be subject to accumulated earnings tax on unreasonable accumulation	C Corporation
N/A	N/A	N/A		Unrestricted	Yes	Deductible by individual subject to certain percentage limits	Limits apply at proprietor level	Used to offset individual's income subject to certain limits	Used to offset tax of the individual	35% (effective rate may be higher if exemptions are phased out and itemized deductions are limited)	Yes	No restrictions	Proprietorship
Unrestricted	At least two	Unrestricted	inventories are maintained or is a tax shelter ^b or has a C corporation partner	Unrestricted unless	Yes, general partners; No, limited partners	Passed through to partner; limits apply at partner level	Limits apply at partner level Limits apply at member level	Passed through to partner; limits apply at partner level	Passed through to partners to be applied against their tax	Taxed at partner level	No; The dollar limitation applies at the partnership level and again at the partner level	No restrictions	Partnership
Unrestricted	At least two ^c	Unrestricted	inventories are maintained or is a tax shelter or has a C corporation partner	Unrestricted unless	Unclear	Passed through to member; limits apply at member level	Limits apply at member level	Passed through to members; limits apply at member level	Passed through to members to be applied against their tax	Taxed at member level	No; The dollar limitation applies at the LLC level and again at the member level	No restrictions	LLC

Note

If a gross receipts test is met, the cash method may be used even if inventories are maintained. Assumes the LLC is a multimember LLC treated as a partnership for tax purposes and not as an association taxable as a corporation.

Reg. 301.7701-3(b)(1)(ii) disregards a single-member LLC as a separate entity.