Comparison Between LLC and Corporation

The following table gives side-by-side comparison of 3 most common forms of business organization: C-Corporation, S-Corporation, and LLC (Limited Liability Company):

***NOTE:** LLC is the most flexible type of business entity thanks to the fact that LLC members can keep the company taxed as partnership (or disregarded entity if single-member LLC, both default forms of taxation), or instead elect it to be taxed as S-Corporation or even C-Corporation, if company owners' taxation goals work best with these types of taxation.*

Any corporation is taxed as C-Corporation by default, and can be elected to be taxed as S-Corporation, provided all shareholders are U.S. persons, etc (read here for a list of requisites for S-Corporation).

In the table below we compare LLC taxed as partnership (or disregarded entity) with corporations taxes as S-Corp and C-Corp respectively.

	LLC	**S-Corporation**	**C-Corporation**
Type of Ownership:	Membership Interests. May be different classes of membership. Owners called "Members".	Stock, but only one class. Can have voting and non-voting. Owners called "Shareholders".	Stock. There may be different classes. Owners called "Shareholders".
Eligible Owners:	No restrictions.	100 shareholder limit. No non-individual and no non-resident alien shareholders.	No restrictions.
Management:	Managed by members or designated manager(s).	Directors and officers.	Directors and officers.
Transfer of Ownership:	There maybe restrictions under certain state laws.	Shares can be transferred only to eligible S corporation shareholders	Shares freely transferred.
Tax Rate:	There is no tax to the LLC on LLC income. All profits or losses pass through and are taxed to the members.	There is no tax except in two limited circumstances: (1) recognized built-in gains and (2) excess passive income.	Gradual tax rates from 15% up to 39% apply to taxable income. Personal Service Corporations are taxed at 35% of all income.
Tax Upon Sale:	Single tax at member level upon sale of appreciated assets. Generally, no tax on distribution of appreciated assets.	Single tax at member level. Potential built-in gains tax if corporation had appreciated property at time of S corporation election.	Potential double taxation. Corporation is taxed on sale of assets, shareholders taxed on dividends or capital gains tax.
Fringe Benefits:	Members are ineligible for certain ones.	Shareholders with 2% and less are ineligible for certain ones.	Shareholders-Employees are eligible for most.
Pass Through of Losses:	Losses passed through to members, subject to certain restrictions.	Losses passed through to shareholders, subject to certain restrictions.	Losses not passed through.
Fiscal Year:	Must use tax year of members having a majority interest in the LLC, or the tax year of all principal	Must use calendar year, subject to certain exceptions.	May use any fiscal year. Personal Service Corporations must use a calendar year, subject to certain exceptions.

	members if there is no majority member.		
Liability of Owner:	There is limited liability for owner(s) and manager(s).	There is limited liability for shareholders, officers, and directors.	There is limited liability for shareholders, officers, and directors.
Duration:	Dissolves at the time specified in the Operating Agreement or upon the loss of a member unless other members agree to continue.	Indefinitely.	Indefinitely.

Quick Comparison: LLC vs. C-Corporation

The entities are taxed differently.

By default an LLC is a pass-through tax entity, meaning that the income is not taxed at the company level (however, a Multi-Member LLC is still required to complete a separate tax return). The income or loss as shown on this return is 'passed through' the business entity to the individual members, and is reported on their individual tax returns.

C-Corporation is a separately taxable entity, and pays tax on the income prior to any dividend distributions to shareholders. If and when corporate earnings are distributed to shareholders in the form of dividends, the corporation does not receive the reasonable business expense deduction, and dividend income is taxed as regular income to the shareholders.

The entities differ in their structure.

LLCs are less rigid in their structure than corporations, so you have more flexibility in adapting the LLC to your unique business. The Operating Agreement of an LLC can be structured in a limitless number of ways.

Formality:

A corporation is a formal entity with officers and directors (at least one of each) required. An LLC, on the other hand, can be 'member managed' and run in a less formal way. For small, start-up businesses, less formality means you can focus on making money rather than administrative work.

Quick Comparison: LLC vs. S-Corporation

Difference in income allocation:

While S-Corporation special tax status eliminates double taxation, it lacks the flexibility of an LLC in allocating income to the owners. An LLC may offer several classes of membership interests, while an S-Corporation may only have one class of stock.

Ownership restrictions:

Any number of individuals or entities may own interest in an LLC. Also, LLCs are allowed to have subsidiaries without restriction. Ownership interest in an S-Corporation is limited to no more than 100 shareholders. On top of that S-Corporations cannot be owned by C-Corporations, other S-Corporations, many trusts, LLCs, partnerships, or non-resident aliens.

Self-Employment Taxes:

One advantage of S-Corporation is the way self employment taxes are calculated. S-Corporation owners employed by the company must receive salary, and their self employemnt tax is caluclated based on that salary (this is true with the exception of S-Corporations based in New York City). Owners of LLC, on the other hand, pay self employment taxes based on all member distributions they receive.

Quick Comparison: C-Corporation vs. S-Corporation

All corporations start as C-Corporations and are required to pay income tax on taxable income. An C-Corporation becomes a S-Corporation by completing and filing federal form 2553 with the IRS.

Taxation:

An S-Corporation's net income or loss is 'passed-through' to the shareholders and are included in their personal tax returns. Because income is NOT taxed at the corporate level, there is no double taxation as with C corporations.

Difference in income allocation:

Subchapter S-Corporations, as they are also called, are restricted to having no more than 100 shareholders, and cannot be owned by C-Corporations, other S-Corporations, many trusts, LLCs, partnerships, or non-resident aliens.

Ready to start your Business?

LLC **Corporation**