

Comparison of Various Business Entities

The following table¹ illustrates the major differences in operating a business as a C corporation, , LLC, or S corporation.

Issue	C Corp	S Corp	Multi-member LLC
Flexible ownership and capital structure?	Yes.	No. Limited to 100 shareholders and one class of stock. Types of shareholders limited.	Yes. LLCs with a single member are disregarded for federal taxes. LLCs must have two or more members to be taxed as partnerships.
Free transferability of ownership interests?	Yes, but may be contractually limited by a buy/sell agreement.	Yes, but must observe limitations on who can own stock. Also may be contractually limited by a buy/sell agreement.	Generally, no. May be limited by buy/sell provisions in partnership agreement or separate agreement.
Double taxation of income?	Yes, however, see IRC Sec. 1202 on qualified small business corps.	No, unless former C corp and built-in gains tax applies.	No.
Passive loss rules apply?	No, unless a PSC or closely held corp.	Yes—at shareholder level.	Yes—at member level; unclear if members treated as limited partners.
Favorable tax rate on long-term capital gains?	No, regular corporate rates apply.	Yes.	Yes.

¹ Created November 2012

Double taxation upon liquidation?	Yes.	Generally, no, but built-in gains tax could apply. Also, sale may generate ordinary income from recapture that can't be offset by capital loss on sale.	No. However, sale may generate ordinary income from recapture that can't be offset by capital loss on sale.
Limitations on use of cash method?	Yes, but smaller corporations and PSCs can use cash method.	No, unless the corporation maintains inventories or is a "tax shelter." (However, if a gross receipts test is met, the cash method may be used even if inventories are maintained.)	No, unless the LLC has a C corporation member, maintains inventories, or is a "tax shelter." (However, if a gross receipts test is met, the cash method may be used even if inventories are maintained.)
Limitations on use of NOLs and other "tax attributes" after ownership change?	Yes.	N/A. Losses pass through to owners.	N/A. Losses pass through to owners.
Double taxation at state and local tax level?	Generally, yes.	Sometimes.	Rarely.
Basis adjustments upon purchase of ownership interest?	No.	No.	Yes. Mandatory basis adjustments may be required on certain transfers or distributions.
Flexibility to make tax-free contributions and distributions?	No.	No.	Yes.

Ability to make special tax allocations among owners?	No.	No.	Yes, but must have substantial economic effect.
Ability to shift entity income among family member owners?	No.	To a degree, by manipulating wages of employee-owners.	Yes, within limits of family partnership rules.
Treatment of gain on sale of ownership interest?	Capital.	Capital.	May be part ordinary under "hot assets" rules. (See IRC Sec. 751.)
Treatment of loss on sale of ownership interest?	Capital unless stock is Section 1244 stock.	Capital unless stock is Section 1244 stock.	Capital.
At-risk rules apply?	No, unless closely held.	Yes, at shareholder level.	Yes, at member level.
Section 179 dollar limitation applied at single level?	Yes.	No. The dollar limitation applies at the S corporation level and again at the shareholder level.	No. The dollar limitation applies at the LLC level and again at the member level.
Ability to use tax credits?	Offsets corporate tax.	Passed through to shareholders to be applied against their taxes.	Passed through to members to be applied against their taxes.