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CHOICE OF ENTITY

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One of the most "often asked" question by business owners is "what form of ownership should I use for my business?"

The attached check list is designed to chart comparisons between the five most common entities.

As with most decisions in life one must weigh competing advantages and disadvantages. There is no "perfect answer."

The three main issues to be considered when choosing an entity are:

- 1.) Simplicity
- 2.) Liability
- 3.) Taxes

The simplest two forms for business ownership are the sole proprietorship and the general partnership. There is no liability protection and there is no way to control the "character breakdown" of the income or loss.

Corporations, limited partnerships and LLC's (LLP's for personal service businesses) limit liability but add complexity and tax compliance costs.

S Corps allow some ability to "tax tune" the *nature* of the income and to a degree allow some *tax deferral* for a limited period of time.

C Corporations can result in double taxation but provide potentially lower tax rates on the first \$50,000 of taxable income. Personal Service Corporations are taxed at the maximum corporate rate on all income.

Sometimes clients come to us with complex entities recommended by other professionals because they are afraid of liability.

The tax compliance cost of an entity often exceeds the cost of additional liability insurance. In addition, simplicity is lost and focus on the important elements of the business may be lost.

Our advice to clients in business...

Focus on making money. If you focus on tax deductions you will make less. Our tax rates are the lowest in over 30 years. Make decisions based on *economics* and *common sense*!

This following checklist is designed to chart comparisons between the 5 most common entities.

Description	Sole Prop	"C" Corp	"S" Corp	General Partnership	LLC
Limited liability	no	yes	yes	no	yes
Lower audit profile	no	depends	maybe	yes	yes
Number of owners	1	1 or more	1-100	2 or more	1 or more
Continuity of life	no	yes	yes	maybe	maybe
Can easily select a fiscal year end	no	yes	limited	no	no
Can deduct 100% of owners health insurance	no	yes	no	no	no
Able to use lower corporate tax rate	no	yes	no	no	no
Can split income between family members	no	yes	yes	yes	yes
Can avoid double taxation of income	N/A	no	yes	yes	yes
Can limit FICA taxes by:					
a. Distributions	no	no	yes	no	no
b. Paying children under 18	yes	no	no	no	no
Not Subject to:					
a. AMT	maybe	maybe	maybe	maybe	maybe
c. Accumulated earnings tax	yes	no	yes	yes	yes
d. Gross receipts tax (LLC fee)	yes	yes	yes	yes	no
Able to deduct business loss on individual return	yes	no	yes	yes	yes
Basis for loss includes owner's share of company debt	N/A	N/A	no	yes	yes
Can increase basis by 'step-up' election	N/A	N/A	no	yes	yes

Description	Sole Prop	"C" Corp	"S" Corp	General Partnership	LLC
Can specially allocate items of income and expense	N/A	no	no	yes	yes
Can deduct interest on money borrowed	yes	no	yes	yes	yes
Can use cash basis even if sales > \$5,000,000	yes	no	yes	yes	yes
Existence of reliable case law	yes	yes	yes	yes	no
Limit on charitable contributions	no	yes	no	no	no

Note: A 'yes' answer suggests a favorable response. A 'no' answer suggests an unfavorable response.

Note well: This checklist should only be used as a guide. Consult a seasoned professional to explain the advantages and disadvantages as they relate to your unique set of circumstances.