

## ENTITY OPTIONS FOR BUSINESSES – KEY CHARACTERISTICS

	<b>Sole Proprietorship</b>	<b>General Partnership</b>	<b>Limited Partnership</b>	<b>For-Profit C Corporation</b>	<b>For-Profit S Corporation</b>	<b>Non-Profit Corporation</b>	<b>LLC – Member Managed</b>	<b>LLC- Manager Managed</b>	<b>Cooperative Corporation</b>
<b>Governance</b>	The Sole Proprietor (or the couple) makes the decisions	All Partners make the decisions	The General Partner makes the decisions	The Board makes the decisions	The Board makes the decisions	The Board makes the decisions	The Members make the decisions	The Members make decisions, but give some power to Manager	Board of Directors, which appoints Officers. Board elected by members on basis of one member, one vote.
<b>Taxation</b>	Pass-Through Taxation	Pass-Through Taxation	Pass-Through Taxation	Entity-Level Taxation	Pass-Through Taxation	No Taxation if obtain tax exemption from IRS and State	Pass-Through Taxation	Pass-Through Taxation	Entity-Level Taxation; Patronage Deductions May Qualify for Federal Deductions**
<b>Liability</b>	The Sole Proprietor (or couple) has personal liability	All partners share personal liability	General partners share pers.l liability; Ltd Partners have limited liability	All owners have limited liability	All owners have limited liability	All board members have limited liability	All owners have limited liability	All owners have limited liability	All owners have limited liability
<b>Capitalization</b>	<ul style="list-style-type: none"> <li>• Sole Proprietor’s own funds</li> <li>• Friends and Family Funds</li> <li>• Debt</li> </ul>	<ul style="list-style-type: none"> <li>• Partners’ own funds</li> <li>• Friends and Family Funds</li> <li>• Debt</li> </ul>	<ul style="list-style-type: none"> <li>• Partners’ own funds</li> <li>• Friends and Family Funds</li> <li>• Debt</li> </ul>	<ul style="list-style-type: none"> <li>• Owners’ own funds</li> <li>• Friends and Family Funds</li> <li>• Debt</li> <li>• Equity</li> </ul>	<ul style="list-style-type: none"> <li>• Owners’ own funds</li> <li>• Friends and Family Funds</li> <li>• Debt</li> <li>• Equity*</li> </ul>	<ul style="list-style-type: none"> <li>• Donations</li> <li>• Grants</li> <li>• Government Support</li> <li>• Debt</li> </ul>	<ul style="list-style-type: none"> <li>• Members’ own funds</li> <li>• Friends and Family Funds</li> <li>• Debt</li> <li>• Equity</li> </ul>	<ul style="list-style-type: none"> <li>• Members’ own funds</li> <li>• Friends and Family Funds</li> <li>• Debt</li> <li>• Equity</li> </ul>	<ul style="list-style-type: none"> <li>• Members’ own funds</li> <li>• Debt</li> <li>• Equity (limited amount of passive investment)</li> </ul>
<b>How to Form</b>	<ul style="list-style-type: none"> <li>• File County DBA form</li> </ul>	<ul style="list-style-type: none"> <li>• Create Written Agreement</li> <li>• File GP-1 State form</li> <li>• File County DBA form</li> </ul>	<ul style="list-style-type: none"> <li>• Create Written Agreement</li> <li>• File LP-1 State form</li> <li>• File County DBA form</li> </ul>	<ul style="list-style-type: none"> <li>• File Corp Articles w/State</li> <li>• Pick&amp; Meet w/ Board</li> <li>• Approve Bylaws</li> <li>• File County DBA form</li> </ul>	<ul style="list-style-type: none"> <li>• File Corp Articles w/State</li> <li>• Pick&amp; Meet w/ Board</li> <li>• Approve Bylaws</li> <li>• File County DBA form</li> </ul>	<ul style="list-style-type: none"> <li>• File Corp Articles w/State</li> <li>• Pick&amp; Meet w/ Board</li> <li>• Approve Bylaws</li> <li>• File County DBA form</li> </ul>	<ul style="list-style-type: none"> <li>• Create Written Agreement</li> <li>• File LLC-1 State form</li> <li>• File County DBA form</li> </ul>	<ul style="list-style-type: none"> <li>• Create Written Agreement</li> <li>• File LLC-1 State form</li> <li>• File County DBA form</li> </ul>	<ul style="list-style-type: none"> <li>• File Corp Articles w/State</li> <li>• Pick&amp; Meet w/ Board</li> <li>• Approve Bylaws</li> <li>• File County DBA form</li> </ul>

\*S Corporations must always meet federal rules: (1) Only one class of stock, (2) Limited to 100 shareholders, who must have legal status in U.S. and generally be humans, not entities, (3) Equity must be proportional (e.g., 60% of stock = 60% profit share), (4) All formalities required (Real Board, Meetings, Minutes)

\*\* Patronage Deductions only available for corporations “operating on a cooperative basis”. The Internal Revenue Code and Regulations do not define what it means to “operate on a cooperative basis.” This has been tested by the courts. The leading case is *Puget Sound Plywood v. Commissioner*, 44 T.C. 305, 307-308 (1965), in which the court said that “operating on a cooperative basis” means (1) democratic control by the members, (2) operation at cost, and (3) subordination of capital. Democratic control means that a cooperative is governed by its members on a one-member-one-vote basis. Operation at cost means that any money left over (beyond a reasonable reserve) after expenses are paid, is returned back to the members. Subordination of capital means that returns to investors must be limited. The main requirement for calculating the amounts to be deducted as patronage are that such amounts are calculated based on a member’s use of the cooperative’s services. “Use of the cooperative’s services” can be measured as: 1) the amount of purchases the member makes as a consumer; 2) the amount of product the member sells to the cooperative as a producer; or 3) the amount of labor the member contributes to the cooperative as a worker.