Business Structure Comparison Guide

Understand the most common U.S. business structures before making a decision. This is an educational overview, not a substitute for state-specific or tax advice.

Structure	General fit	Liability	Federal tax overview
Sole proprietorship	One individual; no separate legal entity by default	Owner generally personally liable	Usually reported on owner's federal return
General partnership	Two or more owners operating together	Partners generally personally liable	Typically files Form 1065; passes items to partners
LLC	State-formed entity with flexible ownership	Liability protection generally available, with exceptions	Default tax treatment depends on owners; eligible LLCs can elect corporate treatment
C corporation	Separate state-formed corporation	Shareholders generally protected	Generally files Form 1120; corporate income may be taxed again when distributed as dividends
S corporation	Eligible corporation or LLC with valid federal S election	Protection depends on underlying legal entity	Generally files Form 1120-S; ownership and eligibility restrictions apply
Nonprofit corporation	State-formed organization for a qualifying purpose	Separate legal entity; governance duties apply	Tax exemption is not automatic; may apply for recognition under §501(c)(3)

Important nonprofit distinction

501(c)(3) describes a federal tax-exempt classification, not a separate state entity type. **Section 508(c)(1)(A)** generally provides an exception from the exemption-application requirement for qualifying churches, integrated auxiliaries, and conventions or associations of churches; it does not create a separate "508 entity."

Before choosing

Consider ownership, liability exposure, funding plans, administration, state rules, and tax advice. For an LLC, legal formation and federal tax classification are separate decisions.

Next step: Compare your likely options with your state filing agency and a qualified tax professional.

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