

CHOOSING AN ENTITY FOR YOUR WORKER-OWNED BUSINESS, page 1 OF 2

| | Sole proprietor | C Corp | S Corp | Limited Liability Company (LLC) | Cooperative Corporation |
|--------------------------------------|---|---|--|---|---|
| Formation requirements, costs | None | Must file with state, state specific filing fee required. | Must file with state, state specific filing fee required. | Must file with state, state specific filing fee required. | Must file with state, state specific filing fee required. |
| Personal Liability | Unlimited liability. | Shareholders are not typically held liable. | Shareholders are not typically held liable. | Members are not typically held liable. | Member-owners are not typically held liable. |
| Administrative Requirements | Relatively few requirements. | Election of board of directors/officers, annual meetings, and annual report filing requirements. | Election of board of directors/officers, annual meetings, and annual report filing requirements. | Relatively few requirements. | Election of board of directors/officers, annual meetings, and annual report filing requirements. Distribution of surplus, member control. |
| Management | Full control. | Shareholders elect directors who manage business activities. | Shareholders elect directors who manage business activities. | Members can set up structure as they choose | Member control as stipulated in the bylaws. |
| Term | Terminated when proprietor ceases doing business or upon death. | Perpetual: can extend past death or withdrawal of shareholders. | Perpetual: can extend past death or withdrawal of shareholders. | Perpetual, unless state requires fixed amount of time. | ? |
| Taxation | Entity not taxable. Sole proprietor pays taxes. | Taxed at corporate rate and possible double taxation: Dividends are taxed at the individual level if distributed to shareholders. | No tax at the entity level. Income passed through to the shareholders. | No tax at the entity level. Income passed through to members. | Profit is taxed at the corporate rate, surplus is distributed to members and not taxed at the entity level. |
| Double Taxation | No | Yes, taxed at corporate level and then again if distributed to shareholders in the form of dividends. | No | No | No |

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| | Sole proprietor | C Corp | S Corp | Limited Liability Company (LLC) | Cooperative Corporation |
|------------------------------------|---------------------------------|--|---|--|---|
| Self Employment Tax | Subject to self employment tax. | Salary subject to self employment tax. | Salary subject to self employment tax, but shareholder distributions are not subject to employment tax. | Salary subject to self employment tax. | Salary is not subject to self employment tax, shareholder distributions are not subject to employment tax. |
| Pass Through Tax Treatment | Yes | No | Yes | Yes | No |
| Payroll Tax for Owners? | Unlikely | Can choose | Can choose | Can choose | Yes |
| Tax Forms | 1040 | IRS Form 1120 | IRS Form 1120S Shareholders get K-1 for personal tax returns. | 1 member: sole proprietor IRS Form 1040 - Schedule C Partnership: IRS Form 1065, Members get K-1 | IRS Form 1120S Shareholders get 1099-PATR for personal tax returns. |
| Transferability of Interest | No | Shares of stock are easily transferred. | Yes, but must observe IRS regulations on who can own stock. | Possibly, depending on restrictions outlined in the operating agreement. | Yes, but must observe IRS regulations on who can own stock. |
| Capital Raising | Individual provides capital. | Shares of stock are sold to raise capital (Securities laws apply). | Shares of stock are sold to raise capital. Limitations prevent S corp stock ownership by corporations. | May sell interests, but subject to operating agreement (Securities laws may also apply). | Capital typically raised from members, possibility for capital raising through preferred shares. |
| Ease of Operation | Easiest | Must have annual meetings, Board of Directors meetings, corporate minutes, and stockholder meetings. | Must have annual meetings, Board of Directors meetings, corporate minutes, and stockholder meetings. | Easy, some states may require more than others. | Must have annual meetings, Board of Directors meetings, corporate minutes, and stockholder meetings. Must meet additional requirements for cooperatives under cooperative code. |

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