

Comparison of Various Company Plans (Family Empire Company =LLC)

CHARACTERISTIC	C CORP	S CORP	LP	LLC	COMMENTS
I. NON TAX BENEFITS					
Limited Liability	A	A	D	A+	In LPs, the general partner and any partners who participate in management are liable. In an LP someone must be generally liable. In an LLC operating managers are protected as in Corps.
Retention of Control	B	B	A	A	In Corps., once minority shareholders reach 10-30% interest, minority interest protection laws may affect the founding owners ability to maintain complete management and control of a small business corporation. LPs and especially LLCs can be set up to give the managing members almost complete control.
Continuity of Life	A	A	D	A+	An LLC can have a greater degree of continuity of life than an LP or even a Corp. in a state that requires unanimous consent to dissolve the LLC, (as in California) as opposed to the two-thirds of majority vote commonly required for corporations or majority vote for LPs.
Restrictions on Transferability	A-	A-	A+	A+	LLC is more flexible and easier to transfer interests. Voting, management and control can be transferred or retained separate from economic interests. Corp. can become very complicated and tax sensitive when set up with voting and non-voting shares.
One Business Entity	A	A	D	A	An LP usually requires a separate Corp. to be set up as general partner to limit liability and protect continuity of life, but this makes the LP much more complicated and expensive. An LLC can accomplish the same purposes without the need for separate Corps or complicated stock configurations.
Restrictions on Voting and Management Rights	B	B	A-	A+	An LLC can be set up with managers and officers with maximum control. Voting rights can be restricted or separated from economic rights. Therefore, shares can easily be transferred without losing control of company. Corporations with restricted rights are more complicated and may end up creating tax problems.
Protection from Lawsuit Liability	B	B	A	A	In Corps. the assets of the company are liable for lawsuits against the company, but the personal assets of the shareholders are protected. In LLPs the general partner and any owners involved in management are also liable for lawsuits against the company. In LLCs only the company's assets are liable for the company's debts, the managers and owners are protected like in a Corp.
Protection from Company's Creditors	B	B	D	A	In Corps. the assets of the company are liable for the company debts but the personal assets of the shareholders are protected. In LLP the general partner and any owners involved in management are also liable for the company's debts. In LLCs only the company's assets are liable for the company's debts, the managers and owners are protected like in a Corp. However, it is much easier to pierce the Corp. and impose personal liability than in an LLC
Protection from Owners' Creditors	B	B	A	A+	In Corps., owners creditors can take away the owner's shares of the company. Once the creditors get control of the stock, they control the assets of the company also. In an LLC the owner may retain his voting and management rights since these are "non economic" interests and may even retain his economic rights subject to a lien by his creditors. This is a much more favorable situation. However, it is much easier to pierce the Corp. and impose personal liability than in an LLC

Simple and Inexpensive Formation	A	A	C	B	A Corp. is very limited in its structure and set up. LPs and LLCs are usually much more flexible and customizable. While the flexibility afforded to LPs and LLCs may mean the cost of establishing the entity is slightly higher, the flexibility, tax benefits and estate planning benefits usually outweigh any higher costs. While the same formation expense considerations that apply for limited partnerships apply to LLCs, there is more freedom to structure the LLC because the functions of ownership and management are segregated, which may result in better ability to meet the owners' needs.
Dealing with Recalcitrant Family Members	C	C	B	A+	In Corps., once recalcitrant members have 10% — 30% they may have minority rights and powers, which may affect the majority owners ability to maintain complete management and control of a small business corporation. An LLC can be set up to retain voting and management in founding owners' control despite transferring economic interests to other family members.
II. TAX BENEFITS					
Partnership Tax Treatment	D-	D+	B	A+	There is no flexibility of tax treatment with C or S corporations. LPs and LLCs can be set up as to be taxed as a partnership or a corporation, allowing the owners to choose the most favorable tax treatment. An LLC is the only entity that can be set up for tax treatment in 4 different ways. It can even be set up as a disregarded entity like a living trust.
No Restrictions on Ownership	B	D	A-	A+	S corporations have significant restrictions on number of shareholders and type. C Corps. have less restrictions. LPs have some restrictions. LLCs have few restrictions.
No Restrictions on Capital Structure	C	D	A-	A+	LPs and LLCs rules are much more flexible as to how structured. Corporations have very structured rules and restrictions on capitalization, voting, etc.
Tax Free Formation	A-	A-	A+	A+	Transfers of business to LLC or LP more likely to be non-taxable event.
Tax Free Contributions	A-	A-	A+	A+	Transfers of business to LLC or LP more likely to be non-taxable event.
Tax Free Withdrawals	D-	D+	A	A	Withdrawals can often be set up as tax free or tax neutral with LLC or LP.
Adjustment to Basis	D	D	A	A	Adjustment to basis rules are more flexible and tax beneficial under LP or LLC.
Discounts for Estate and Gift Taxes	C	C	B	A+	An LLC provides the most potential for discounts in value for estate and gift tax saving purposes.
Self Employment Income Tax	D	B	B	A	Dividends from a C corporation will be subject to two levels of tax. In an S corporation, LLC, or LP withdrawals can be set up as personal income not dividends. However, in most small business company's profits are taken out in salary or in consulting benefits. An LLC is the only entity in which you can choose how you want to be taxed.

A = Significant Advantage

B = Some Advantage

C = Neutral

D = Disadvantage

(A plus (+) or minus (-) indicates a greater or lesser degree of advantage or disadvantage.)