



# Business Entity Pros and Cons

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## Business Entity Pros and Cons

Sole Proprietorship	
<b>Pros</b>	<ul style="list-style-type: none"> <li>No formal creation process.</li> <li>Easy to operate and dissolve.</li> <li>No separate tax return.</li> <li>Easy to integrate business use of home deductions.</li> <li>No double taxation of profits.</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>No liability protection, except through insurance.</li> <li>Self-employment tax is assessed on entire net profit of the business.</li> <li>Transfer of ownership can be complex.</li> <li>Limited access to fringe benefits for owners.</li> </ul>
<b>Good Fit</b>	<ul style="list-style-type: none"> <li>Seasonal or part-time businesses.</li> <li>Businesses with little liability.</li> <li>Home-based businesses.</li> <li>Businesses intended to operate for the owner's life only.</li> </ul>

Single-Member LLC	
<b>Pros</b>	<ul style="list-style-type: none"> <li>Simple creation process.</li> <li>Easy to operate and dissolve.</li> <li>No separate tax return.</li> <li>Easy to integrate business use of home deductions.</li> <li>Liability protection for member, except for malpractice.</li> <li>No double taxation of profits.</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>Self-employment tax is assessed on entire net profit of the business.</li> <li>Transfer of ownership can be complex.</li> <li>Limited access to fringe benefits for owners.</li> <li>Laws regulating LLCs vary widely among states.</li> </ul>
<i>Single-Member LLC continued</i>	
<b>Good Fit</b>	<ul style="list-style-type: none"> <li>Businesses with potential liability in operations.</li> <li>Businesses intended to operate for the owner's life only.</li> </ul>

Multi-member LLC	
<b>Pros</b>	<ul style="list-style-type: none"> <li>Simple creation process.</li> <li>Limited liability for all members, except for malpractice or debt guarantees.</li> <li>Unlimited number of members.</li> <li>Separate entity from members, allowing for greater flexibility in operations.</li> <li>Ownership is in the form of membership interest and can be transferred more easily than ownership in a single-member LLC.</li> <li>No double taxation of profits.</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>Requires a separate tax return.</li> <li>Laws regulating LLCs vary widely among states.</li> </ul>
<b>Good Fit</b>	<ul style="list-style-type: none"> <li>Businesses requiring equity capital.</li> <li>Businesses with potential liability in operations.</li> <li>Businesses intended to exist beyond the lives of the members.</li> <li>Businesses expecting changes in ownership over time.</li> </ul>

General Partnership	
<b>Pros</b>	<ul style="list-style-type: none"> <li>Simple creation process.</li> <li>No limit on partner number or type.</li> <li>Can be used to hold investments in other businesses and consolidate multiple lines of business.</li> <li>Flexible allocation of profit, loss, and distributions.</li> <li>Favorable tax treatment when liquidated.</li> <li>No double taxation of profits.</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>Requires a separate tax return.</li> <li>Unlimited liability for all partners.</li> <li>Difficult to dissolve or change ownership without substantial planning.</li> <li>Requires tracking of basis for partners, both inside and outside the partnership.</li> <li>Individual partner's share of income is subject to self-employment taxes.</li> </ul>
<b>Good Fit</b>	<ul style="list-style-type: none"> <li>Two established businesses who wish to work as one.</li> <li>Partners wishing to consolidate multiple entities into one entity.</li> </ul>