

Choice of Entity

Entity	Limited Liability	Number of Owners	Type	Federal Income Tax	Employment Tax	Corporate Income Tax	Recommended Use:
Sole Proprietorship	NO - Limited Liability	1	Active	Personal Rates 10% to 35%	All Earnings Subject to employment tax	Generally Exempt	For small business owners who net less than \$30,000 and have no liability concerns.
S Corporation	Limited Liability	1 or more	Active and Passive	Personal Rates 10% to 35% Each owner pays tax at the individual level.	Allow Owner to Receive Reasonable Salary subject to employment tax, remainder treated as passive.	Subject to Franchise Tax in Texas	For individual business owners or partners who receive a reasonable salary of around \$20,000 to \$30,000 and want to receive the remainder as passive income, exempt from employment tax.
C Corporation	Limited Liability	2 or more	Passive Investors. Salary paid to Active Owners.	Corporate Rate 15% to 35% Plus Personal Rates 10% to 35%	All salary paid to employees, including owner employees, are subject to employment tax.	Generally Subject to Corporate Income Tax Rates	For specialized clients who plan to take a company public or who need a corporate structure for minor children.
LLC Taxed as Sole-Proprietorship	Limited Liability	1		Personal Rates 10% to 35%	All Earnings Subject to employment tax	Subject to Tax in Texas, exempt in Illinois	For small business owners who have liability concerns but do not earn enough net income to need the active-passive income split of the S Corporation.
LLC - Active Partners	Limited Liability	2 or more	All partners actively participate	Personal Rates 10% to 35% Each owner pays tax at the individual	All Earnings Subject to employment tax	Subject to Franchise Tax in Texas	For partners who net less than \$40,00 to \$50,000 and want maximum flexibility in ownership.
LLC - Active and Passive Partners	Limited Liability	2 or more	Some Active, Some Passive	Personal Rates 10% to 35% Each owner pays tax at the individual	Active income subject to employment tax. Passive income exempt from employment tax.	Subject to Franchise Tax in Texas	Depending on the State, this structure offers the same advantages as a limited partnership, but with greater flexibility.
LP - Limited Partnership	Limited Liability	2 or more	Some Active, Some Passive	Personal Rates 10% to 35% Each owner pays tax at the individual	Active income subject to employment tax. Passive income exempt from employment tax.	Subject to Franchise Tax in Texas	For complex business structures or family business, the limited partnership provides the greatest tax saving opportunities.