



Business Entity Pros and Cons



BEATTY CPA LLC

Texas Based – Global Focus

603A Park Grove Dr.
Katy, TX 77450

832.321.4444

www.beattyllc.com

Business Entity Pros and Cons

Sole Proprietorship

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

Single Member LLC

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

Multimember LLC

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

General Partnership

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

