

## COMPARISON OF ENTITY ATTRIBUTES

| <b>ATTRIBUTE</b>                  | <b>SOLE PROPRIETORSHIP</b>    | <b>PARTNERSHIP</b>   | <b>PLLC</b>  | <b>C CORP</b>  | <b>S CORP</b>  |
|-----------------------------------|-------------------------------|--|--|--|--|
| Continuity of Life                | Ceases on death of proprietor | Terminates if 50% or more of total interest in capital and profits is sold or exchanged within a 12-month period | Generally no   | Indefinite   | Indefinite (Stock ownership must be monitored)   |
| Transferability of Interests      | Freely transferable           | Generally subject to partners' approval  | Generally subject to members' approval   | Generally freely transferable; Can be restricted through buy/sell agreements | Generally freely transferable; Can be restricted through buy/sell agreements   |
| Management                        | Centralized                   | General partnership: not centralized; Limited partnership: generally centralized                                 | Generally subject to members' approval   | Centralized; Board of Directors; Corporate officers                          | Centralized; Board of Directors; Corporate officers  |
| Liability of Owners               | Unlimited                     | Unlimited  | Generally limited to the assets in the PLLC  | Generally limited to assets in corporation                                   | Generally limited to assets in corporation   |
| Contribution of Property          | Nontaxable transaction        | Generally a nontaxable transaction; Assumption of liabilities by partnership may trigger gain recognition        | Generally a nontaxable transaction; Assumption of liabilities by PLLC may trigger gain recognition     | Nontaxable only if transaction meets IRC Sec. 351 requirements               | Nontaxable only if transaction meets IRC Sec. 351 requirements   |
| Taxability of Income              | Taxable to proprietor         | Taxable to partner   | Taxable to member  | Taxable to corporation   | Generally taxable to shareholder   |
| Deductibility of Losses           | Deductible by proprietor      | Generally deductible by partner to extent of basis; Liabilities may increase basis for deducting losses          | Generally deductible by member to extent of basis; Liabilities may increase basis for deducting losses | Deductible by corporation  | Generally deductible by shareholder; Liabilities do not increase basis for deducting losses except for direct loans from shareholder |
| Special Allocation of Income/Loss | Not applicable                | Permitted as long as there is substantial economic effect  | Permitted as long as there is substantial economic effect  | Not applicable   | Not permitted  |

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|---|--|---|--|---|--|
| Tax Year                                      | Must use tax year of proprietor                | Generally must use fiscal year of majority interest partners or make Sec. 444 election                                | Generally must use fiscal year of majority interest members or make Sec. 444 election<br>Calendar year for most single member PLLC's | May select any fiscal year if not a personal service corporation  | Generally must use calendar year or make Sec. 444 election   |
| Qualified Retirement Plans for Employee-Owner | Payments to a Keogh Plan or SEP are deductible | Payments to a Keogh Plan or SEP are deductible  | Payments to a Keogh Plan or SEP are deductible   | Payments are deductible if plan is nondiscriminatory  | Payments are deductible if plan is nondiscriminatory   |
| Life Insurance for Employee-Owner             | Premiums are not deductible                    | Premiums are not deductible   | Premiums are not deductible  | Premiums for first \$50,000 group-term life are deductible and not taxable to employee  | Deductible as compensation (not deductible for 2% shareholder)   |
| Health Insurance for Employee-Owner           | 100% deductible                                | Typically deductible by partnership as guaranteed payment; Reported as income by partners; 100% deductible by partner | Typically deductible by PLLC as guaranteed payment; Reported as income by members; 100% deductible by members                        | Payments are deductible   | Deductible by corporation as compensation; 100% deductible by more-than-2% shareholder   |
| Distributions to Owner                        | Nontaxable                                     | Nontaxable to extent of basis in partnership; Disproportionate distribution of Section 751 assets may trigger gain    | Nontaxable to extent of basis in PLLC; Disproportionate distribution of Section 751 assets may trigger gain                          | Not deductible by corporation; Generally considered dividend income to shareholder; Distribution of appreciated property results in gain recognition by corporation | Nontaxable to shareholder to extent of basis in stock; Distribution of appreciated property results in gain recognition by corporation |
| Gain on Sale of Interest                      | Capital and/or ordinary                        | Capital (unless collapsible partnership rules apply)  | Capital (unless collapsible partnership rules apply)   | Capital; Up to 50% of gain from qualified small business stock may be excluded  | Capital  |
| Loss on Sale of Interest                      | Capital and/or ordinary                        | Generally capital   | Generally capital  | Ordinary to extent of Section 1244 stock; Otherwise loss is capital   | Ordinary to extent of Section 1244 stock; Otherwise loss is capital  |

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|--------------------------------------|--|---|---|--|---|
| Liquidating Distribution             | Nontaxable   | Generally, nontaxable; Cash distribution in excess of basis will trigger gain; Disproportionate distribution of Section 751 assets may trigger gain | Generally, nontaxable; Cash distribution in excess of basis will trigger gain; Disproportionate distribution of Section 751 assets may trigger gain | At corporate level treated as sale of property; Gain to shareholder if FMV exceeds stock basis | At corporate level treated as sale of property; Gain passes through and increases shareholder basis; Could trigger built-in gains tax |
| Accumulation of Earnings             | No restrictions  | No restrictions   | No restrictions   | Corporations could be subject to accumulated earnings tax on unreasonable accumulation         | No restrictions   |
| Maximum Tax Rate                     | 35% (effective rate may be higher if exemptions are phased out and itemized deduction are limited) | Taxed at partner level  | Taxed at member level   | 35%, with 3% increase for taxable income between \$15 million and \$18.33 million              | Generally taxed at individual shareholder level; If corporate-level tax applies, then 35%   |
| Use of Net Operating Losses          | Used to offset individual's income subject to certain limits                                       | Passed through to partner; Limits apply at partner level  | Passed through to member; Limits apply at member level  | Used to offset corporate income subject to certain limits                                      | Passed through to shareholder; Limits apply at shareholder level  |
| At-Risk Rules                        | Limits apply at Proprietor level   | Limits apply at partner level   | Limits apply at member level  | Only applicable to certain closely held corporations   | Limits apply at shareholder level   |
| Charitable Contributions             | Deductible by individual subject to certain percentage limits                                      | Passed through to partner; Limits apply at partner level  | Passed through to member; Limits apply at member level  | Deductible by corporation subject to certain percentage limits                                 | Passed through to shareholder; Limits apply at shareholder level  |
| Self-Employment Income To Owners     | Yes  | Yes   | Yes   | No   | No  |
| Accounting Method                    | Unrestricted   | Unrestricted  | Unrestricted  | Restricted   | Unrestricted  |
| Classes of Stock/Ownership Interests | N/A  | Unrestricted  | Unrestricted  | Unrestricted   | Restricted  |
| Number of Investors                  | N/A  | Unlimited   | Unlimited   | Unlimited  | Limited to 100  |
| Eligible Investors                   | N/A  | Unrestricted  | Unrestricted  | Unrestricted   | Restricted  |