**Choice of Business Entity**

|  | **C Corporation** | **S Corporation** | **LLC** |
| --- | --- | --- | --- |
| **Limited liability (protection from personal liability)** | **✔** | **✔** | **✔** |
| **Ease of establishing entity** | Requires some paperwork and filings, but particularly in a popular state like Delaware, the procedures are well known and lots of online resources are available to assist entrepreneurs | Same as C corporation, but with additional IRS filing to elect pass-through taxation | Easiest form to establish (but requirements differ by state) |
| **Formality & structure of business operations** | Corporate formalities must be followed – e.g., establishing a board of directors, holding regular board & shareholder meetings, keeping minutes of meetings | Same as C corporation | Far more flexible. Can be as simple as a member-managed LLC where members (the term for an LLC’s business owners) run the business themselves |
| **Pass-through tax status**  Benefits of pass-through status: profits taxed only once; owners can personally deduct some losses  Disadvantages of pass-through status: owners are taxed on “phantom income” even when not distributed out of the business | **X** | ✔ | ✔ |
| **Unlimited ownership** | ✔ | **X**  Must have no more than 100 shareholders, and all shareholders must be individuals (i.e., not institutions) | ✔  (although note that some states require at least 2 LLC members) |
| **Possible to use equity as incentive compensation** | ✔ | ✔ | ✔ |
| **Favorable tax treatment for certain eligible incentive compensation (“incentive stock options”)** | ✔ | **X** | **X** |
| **Multiple classes of equity (e.g., common, preferred)** | ✔ | **X**  Note that having only 1 class of equity limits the ability to both:   * attract outside investors; and * offer favorably priced equity compensation to employees | ✔ |
| **Ability to change structure without tax** | **X** | **X** | ✔  LLCs will often incorporate tax-free in connection with a VC financing round, an acquisition or an IPO |