

This table summarizes the treatment of various items from the operation of an entity. The difference in income reporting and the incidence of taxation give rise to basis adjustment that varies among the entities. The treatments of these items provide opportunities for owners of business to reduce their taxes.

Tax Consideration	Sole Proprietorship	Partnership	Corporation	S Corporation
Who is tax on the income		Partners are taxed on their share of the income	Corporation. Shareholders are taxed on dividends	Shareholders are taxed on their of the income
Is a separate statement of income and deduction items required?	No, but certain items are part of the owner's income and deductions and are not included in operating income	Yes	No	No
How are capital gains and losses handled?	Not Included in Operating Income. Combined with owner's other capital gains and losses	Separately stated item. Partners combine them with their other capital gains and losses.	Capital gains are ordinary income. Capital losses are deductible only against capital gains. Three-year carry-back and five –year carry-forward of losses	Separately stated item. Shareholders combine them with their other capital gains and losses
Is corporate depreciation recapture required	No	No	Yes additional recapture on Section 1250 property	Yes additional recapture on Section 1250 property
Is the dividends received deduction allowed	NO	No	Yes 70% to 100% domestic corporations.	
Are net operating losses deductible?	Can deduct only against other business income of the owner. Two-year carry back and 20-yearcarry-forward of losses.	Separately stated item Deductions limited to partner's basis and at-risk amount. Loss may be subject to passive loss rules if partner does not materially participate	Two-year carry-back and 20-year carry-forward of loss.	Separately stated item. Deduction limited to shareholder's basis plus loans to the corporations and at-risk amount. Loss may be subject to passive loss rules if shareholder does not materially participate
Is basis adjusted?	Not applicable	Partner's basis is adjusted for operating items, withdrawals and liabilities of the partnership	Shareholders basis is generally not adjusted unless stock dividend or nontaxable cash dividend received	Shareholder's basis is adjusted for operating items, dividends received. No adjustment for liabilities of the corporation
Are passive losses deductible	Not deductible in calculating operating income. Deductible per rules for individuals	Separately stated item. Partners deduct per rules for individual.	Passive loss rules generally not applicable to corporations	Separately stated item. Shareholders deduct per rules for individuals
Are charitable contributions deductible	Not deductible in calculating income. Must be deducted on owner's return as itemized deductions	Separately stated item. Partners deduct as itemized deduction	Deductible, subject to 10% of taxable income limitation. Special rules from certain donated inventory	Separately stated item. Shareholders deduct as itemized deduction