

This table summarizes the major tax aspects to consider at the formation of a business entity. Although many tax treatments are identical for all entity forms, significant differences do exist. These differences should be considered when choosing an entity.

Factor	Sole Proprietorship	Partnership	Corporation	S Corporation
Contribution of property to the entity	Not a taxable transaction	Generally not a taxable transaction.	A taxable transaction unless the transferors control the corporation immediately after the transfer	A taxable transaction unless the transferors control the corporation immediately after the transfer
Self Employment	Income reported on Schedule C and taxed with Self Employment Tax	Income reported on Schedule C from K-1 form and taxed with Self Employment Tax	N/A	N/A
Basis of ownership interest	Adjusted basis of property contributed	Adjusted basis of property contributed plus gain recognized	Adjusted basis of property contributed plus gain recognized.	Adjusted basis of property contributed plus gain recognized.
Basis of property contributed to the entity	Adjusted basis of property contributed.	Adjusted basis of property contributed plus gain recognized plus share of partnership liabilities minus liabilities assumed by the partnership	Adjusted basis of property contributed plus gain recognized	Adjusted basis of property contributed plus gain recognized
Basis treatment if entity liabilities	Not applicable	Includes in partners' bases	Cannot be included shareholders' bases	Cannot be included shareholders' Bases
Start Organizational Cost	Deduct \$5000. Remainder amortizable over 181 months	Deduct \$5000. Remainder amortizable over 181 months.	Deduct \$5000. Remainder amortizable over 181 months	Deduct \$5000. Remainder amortizable over 183 months.
Accounting Periods	Same tax year as owners	Restricted to tax year of majority-interest partner, principal partners, least aggregate deferral of partners' income, or natural business year	Unrestricted	Must use a calendar year or ownership tax year unless qualified for a natural business year
Accounting Methods	Same accounting method as owners	Generally unrestricted; cash method not available if a corporation is a partner unless the partnership's average annual gross receipts for last 3 years are 5 million or less, or it is engaged in farming	Restricted to accrual method unless average annual gross receipts for last 3 years are 5 million, or it is engaged in farming	Unrestricted