

## Financial/tax comparison of various corporate structures

Source material for this tool originally appeared in the September 2004 MGMA Connexion<sup>TM</sup> For more information on the topic, search for the terms “group practice formation” in the online MGMA Article Archive.

Issue	C corporation	S corporation	Limited liability entity	Partnership	Sole proprietorship
Number of owners	One or more	One to 75	Two or more (although some states allow single-member LLCs)	Two or more	One
Limited liability (except malpractice)	Yes	Yes	Yes	No	No
Tax on entity income paid by	Entity	Generally owners (exception for built-in gains and excess passive income)	Owners	Owners	Owners
Double taxation	Yes	Not usually, with exception for built-in gains and excessive passive income	No	No	No
Entity tax reporting form	Form 1120	Form 1120S (includes K-1 for each owner)	Form 1065 (includes K-1 for each owner)	Form 1065 (includes K-1 for each owner)	N/A
Physician-owner tax reporting	N/A	Include share of income and deductions from his/her 1120S K-1 in Schedule E of Form 1040	Include share of income and deductions from his/her 1065 K-1 in Schedule E of Form 1040	Include share of income and deductions from his/her 1065 K-1 in Schedule E of Form 1040	Reports practice income and expenses of Schedule C of his/her Form 1040
Debt basis for pass-through losses and deductions	N/A	Must be loan directly from shareholder to the S corporation	May include entity-level debt if personally liable; also qualified nonrecourse indebtedness	Yes	Yes
Unreasonable compensation issue	Yes	No, except for potential payroll taxes when compensation deemed too low	No	No	No
Exclusion of certain fringe benefits (e.g., health, disability, long-term care, \$50,000 group term life insurance) from owner income	Yes	No for > 2% owners, who may deduct some or all health and long-term-care insurance separately on individual income tax returns	No, but may be able to deduct some or all health and long-term-care insurance separately on individual income tax returns	No, but may be able to deduct some or all health and long-term-care insurance separately on individual income tax returns	No, but may be able to deduct some or all health and long-term-care insurance separately on individual income tax returns