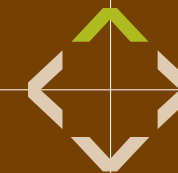


## Entity Comparison Matrix

	S CORPORATION	C CORPORATION	PARTNERSHIP	LLC	SOLE PROPRIETORSHIP
PAYROLL TAXES	Distributions from S corporations are not subject to self employment tax and may not be subject to payroll taxes of any kind, assuming reasonable compensation paid to active shareholders	Generally, payments to working shareholders must be treated as compensation, thereby subject to all payroll taxes	Distributions are not subject to self-employment tax, but earnings to the general partners may be	Distributions are not subject to self-employment tax, but earnings to the managing member or other members may be	Earnings are subject to self-employment tax
CARRY FORWARDS & CARRY BACKS	No carry forwards or carry backs available at corporate level, but available at personal level (see Sole Proprietorship)	Losses may be carried forward for 20 years and carried back for 2 years	Same as S corporation	Same as S corporation	Some carry backs and carry forwards as normally available to an individual (losses back 2 years and forward 20; credits generally forward 5)
FRINGE BENEFITS	Generally, health and disability insurance premiums paid on behalf of shareholders are taxed to shareholder as wages but deductible separately at the personal level	Generally, fringe benefits paid on behalf of shareholder/employees can be deducted and excluded from income	Benefits are separately stated and flow through to the limited partner with health and disability being deductible and separately stated at the personal level	Benefits are separately stated and flow through to the member with health and disability being deductible and separately stated at the personal level	Health and disability insurance are eligible as a deduction for AGI
TAX SHELTER INVESTMENTS	Tax shelter type investments will be treated as if they were owned personally, with shareholders subject to passive loss limitations	With the exception of personal service corporations, passive loss rules generally do not apply to C corporations	Same as S corporation	Same as S corporation	Not Applicable
FISCAL YEAR	S corporations can adopt a tax year end of December 31st or any other year end as long as the corporation can establish a satisfactory business purpose	May adopt fiscal years other than December 31st	Generally, partnerships must adopt the same tax year as the majority owner's tax year	Generally, LLC's must adopt the same tax year as the majority owner's tax year	Same tax year as individual
QUALIFIED PLAN	Loans to shareholders are subject to the same rules that apply to non-shareholders	Loans to shareholders are subject to the same rules that apply to non-shareholders	Same as S corporation	Same as S corporation	Not Applicable
LIFO RESERVE	A newly electing corporation must treat existing LIFO reserves as taxable income for the year prior to the effective date of the election	Not Applicable	Not Applicable	Not Applicable	Not Applicable
SALARIES TO SHAREHOLDERS, PARTNERS OR MEMBERS	Salaries and other expenses to shareholders must be determined and paid prior to the last day of the corporate year in order to be deductible	Accrual basis corporations may pay these expenses within 2 1/2 months after year end to shareholders not owning more than 50%	Not Applicable, partners cannot receive wages	Not Applicable, members cannot receive wages if the LLC is taxed as partnership	Not Applicable
CHANGE IN STATUS	May change its election at any time	May not elect S status if it has been an S corporation at any time within the previous 5 years	A partnership can terminate at the discretion of the partners	Taxed as Partnership by default; can elect to be treated as a C corporation	Not Applicable
CAPITAL GAIN EXCLUSION FOR SMALL BUSINESS STOCK	S corporation stock has no special treatment on disposition	Newly acquired stock in many C corporations can qualify for 50% reduction in capital gains tax if held more than 5 years	Same as S corporation	Same as S corporation	Not Applicable
CONTINUITY OF LIFE?	Yes, but stock ownership must be monitored	Yes	Generally, no	Varies state to state	Not Applicable
TRANSFERABILITY OF INTERESTS	Yes, but must observe limitations on who can own stock and should be contractually limited by a shareholder's agreement	Yes, but may be contractually limited by a shareholder's agreement	Yes, but may be contractually limited by an operating agreement	Yes, but may be contractually limited by an operating agreement	No
RETAIN CASH AT LOWER CORP RATES	No	The top corporate tax rate is currently equal to the top individual tax rate, so there is no current advantage	No	No	No
ELIGIBLE FOR BENEFICIAL CAPITAL GAINS TAX RATES	Yes	No	Yes	Yes	Yes
UNREASONABLE OWNER COMPENSATION ISSUES	Yes, low compensation may be challenged	Yes, excessive compensation may be challenged	No	No	No
SECTION 1244 STOCK	Not Applicable	Certain losses on small business stock may be eligible for ordinary loss treatment, subject to certain limits	Not Applicable	Not Applicable	Not Applicable

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# Entity Comparison Matrix

	S CORPORATION	C CORPORATION	PARTNERSHIP	LLC	SOLE PROPRIETORSHIP
LIABILITY	Generally, shareholders have limited liability	Generally, shareholders have limited liability	Generally, Limited Partners have limited liability; general partner(s) has unlimited liability	Generally, all Members have limited liability	Individual has unlimited liability
MANAGEMENT	By board of directors, elected by shareholders	By board of directors, elected by shareholders	By general partner(s); a limited partner's participation in management may create unlimited liability as a general partner	By Members and/or by Managers	Individual
CLASSES OF STOCK OWNERSHIP	May only have one class of voting stock	May have different classes of stock, including preferred	Multiple classes of ownership are possible	Multiple classes of ownership are possible	Not Applicable
ELIGIBLE SHAREHOLDERS, PARTNERS, OR MEMBERS	Except for certain trusts and new estates, only US Citizens, residents, ESOPs and charities may own stock	There is no restriction on who may own stock, including ESOPs, corporations, etc.	Generally, no restrictions	Varies state to state	Not Applicable
MAXIMUM NUMBER OF INVESTORS	Maximum of 100 shareholders, who must be U.S. residents (Family members count as 1 member)	No limitations on maximum number of shareholders	No limitation on maximum number of partners	Single member LLC is possible. No limitation on maximum number of members, but if there are more than 100 members, it will fall outside of the publicly-traded partnership safe harbor, and may be taxable as a corporation	Not Applicable
SUBSIDIARIES	May own 80% or more of a regular C corporation, which may elect to file a consolidated return with other affiliated regular C corporations. The S corporation itself may not join in that election. In addition, an S corporation is now allowed to own a "qualified subchapter S subsidiary" (QSUB). The parent S corporation must own 100% of the stock of the subsidiary	No limitations on C corporations; Cannot own stock in an S corporation	Cannot own stock in an S corporation; can own stock in C corporations	Cannot own stock in an S corporation; can own stock in C corporations	Not Applicable
EFFECTIVE TAX RATES	Income flows through to the shareholders and is currently taxed at individual rates ranging from 10% to 35%	Taxed at rates ranging from 15% to 39% with an overall maximum rate of 35% on most corporations; second tax assessed on distributions	Same as S corporation	May elect to be taxed as partnership or C corporation	Income reported on Schedule C of 1040 and currently taxed at individual rates ranging from 10% to 35%
TAX ON SALE OR LIQUIDATION	Generally, sale of assets will only create one tax which will flow to the shareholder except in cases where S Corp has accumulated C Corp E & P	IRS Rules require a double tax on profits realized through sale or liquidation of assets	Same as S corporation	Same as S corporation	Sale of assets reported directly by individual
TAXABILITY OF DISTRIBUTIONS	Profits retained in the corporation can be distributed at no additional tax to the shareholder	Distribution will generally be treated as dividends, and shareholders will pay additional tax (Most dividends are taxed at 15%)	Same as S corporation	Same as S corporation	Not Applicable
CORPORATE PENALTY TAXES	Generally none. However, former C corporations which have elected S corporation status may be required to pay a "built in gains" tax on dispositions of assets occurring within seven years after election. Also, former C corporations with passive income may be subject to the Passive Income or (Sting Tax)	Subject to personal holding company tax, excess accumulated earnings tax and alternative minimum tax. Potential for additional tax for disallowance of excess compensation	Generally none	Generally none	Same penalty taxes that apply to all individuals
DEDUCTIBILITY OF LOSSES	To the extent of their basis, shareholders can deduct their pro rata share of the corporate losses, subject to the passive activity rules	Losses cannot be utilized by shareholders	Same as S corporation	Same as S corporation	Business losses are deductible on IRS Schedule C, to the extent of the owner's basis
ACCOUNTING METHODS	All S corporations can elect cash basis method of accounting, provided that method is acceptable under general tax law, or the accrual method or a hybrid method	Generally, corporations with annual gross receipts for previous 3 years in excess of \$10 million, including related entities and those with inventory, must use the accrual method of accounting	Cash or accrual method can be used, but entity may be required to adopt majority owner's method (if a corporation is a partner see C Corporation)	Cash or accrual method can be used, but entity may be required to adopt majority owner's method	Same as S corporation
DISALLOWANCES OF EXPENSES BY IRS	Disallowances of expenses, such as travel and entertainment, are taxed only to the shareholder	Disallowances may be taxed both to the corporation and the shareholder, in the form of a constructive dividend	Same as S corporation	Same as S corporation	Same as S corporation

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