



Selecting a Business Entity

Entity Descriptions

Sole proprietorship - A sole proprietorship is the simplest and most common structure chosen to start a general business. It is an unincorporated business owned and run by one individual with no distinction between the business and the owner. The owner is entitled to all profits and is responsible for all the business's debts, losses and liabilities. Given the potential for liability accompanying the administration of anesthesia, this is rarely, if ever, utilized for business ventures related to the provision of healthcare services.

- US Small Business Administration (SBA): [Sole Proprietorship](#)
- Internal Revenue Service (IRS): [Sole Proprietorships](#)

Partnership – A partnership is a single business where two or more people share ownership. Each partner contributes to all aspects of the business, including money, property, labor or skill. In return, each partner shares in the profits and losses of the business. The following are two types of partnership agreements:

1. *General* - Two or more people (or entities) joining together to operate or conduct a business as co-owners. This arrangement assumes that profits, liability and management duties are divided equally among partners.
2. *Limited* - This arrangement is more complex than general partnerships. Limited partnerships allow partners to have limited liability as well as limited input with management decisions. These limits depend on the extent of each partner's investment percentage. Limited partnerships are attractive to investors of short-term projects.

- SBA: [Partnership](#)
- IRS: [Partnerships](#)

Limited Liability Corporation (LLC) – An LLC is a hybrid legal structure that provides the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. Owners of an LLC are called members. State regulations of LLC vary, and should be reviewed prior to establishing and LLC. Due to state specific regulations, compliance with all rules may be complex. Most states do not restrict ownership; therefore, members may include one or more individuals, corporations, or other LLCs. Unlike shareholders in a corporation, LLCs are not taxed as a separate business entity. Instead, all profits/losses are passed through the business to each member. LLC members report profits/losses on their personal federal tax returns, just like the owners of a partnership would.



- SBA: [Limited Liability Company](#)
- IRS: [Limited Liability Company](#)

C Corporation – A C Corporation is an independent legal entity owned by shareholders. The corporation itself, not the shareholders that own it, is held legally liable for the actions and debts the business incurs. It is subject to “double taxation” which means that the corporation will be taxed on its profits and whatever funds are distributed to the shareholders as dividends will also be taxed.

- SBA: [Corporation](#)
- IRS: [Corporations](#)

S Corporation – An S Corporation is a special business entity created through an IRS tax election. It is similar to a C Corporation but is allowed to act as a pass-through entity, allowing corporate income, losses, deductions, and credits to flow directly through to the individual shareholders, thereby avoiding double taxation.

- SBA: [S Corporation](#)
- IRS: [S Corporations](#)

Comparison Chart

	Sole Proprietorship	General Partnership	Limited Partnership	Limited Liability Corporation (LLC)	C Corporation	S Corporation
Ownership	One owner.	Unlimited number of owners.	Unlimited number of owners; one must be a general partner.	Unlimited number of owners (“members”).	Unlimited number of owners/ shareholders.	Limited to 100 shareholders.
Personal Liability	Unlimited personal liability for business debts and obligations.	Unlimited personal liability of general partners for business debts and obligations.	Unlimited personal liability of general partners for business debts and obligations. Limited partners have limited liability.	Owners have limited liability for business debts and obligations.	Owners have limited liability for business debts and obligations.	Owners have limited liability for business debts and obligations.

	Sole Proprietorship	General Partnership	Limited Partnership	Limited Liability Corporation (LLC)	C Corporation	S Corporation
Taxation	Business entity is not taxed. Profits/losses are passed through to the owner's personal tax return; therefore there is no "double taxation."	Business entity is not taxed. Profits/losses are passed through to the general partners' personal tax return; therefore there is no "double taxation."	Business entity is not taxed. Profits/losses are passed through to the general and limited partners' personal tax return; therefore there is no "double taxation."	Business entity is not taxed. Profits/losses are passed through to the members personal tax returns; therefore there is no "double taxation." May elect to be taxed as corporations.	Business entity is taxed on earnings at the corporate level and the shareholders have a further tax on any dividends distributed ("double taxation").	Business entity is not taxed. Profits/losses are passed through to shareholders personal tax return; therefore there is no "double taxation."
Formation Documentation	Doing Business As (DBA) Filing	General Partnership Agreement Local filings if partnership holds real estate	Limited Partnership Certificate Limited Partnership Agreement	Articles of Organization Operating Agreement	Articles of Incorporation Bylaws Organizational Board Resolutions Articles of Incorporation Stock Certificates Stock Ledger	Articles of Incorporation Bylaws Organizational Board Resolutions Articles of Incorporation Stock Certificates Stock Ledger IRS & State S Corporation election

	Sole Proprietorship	General Partnership	Limited Partnership	Limited Liability Corporation (LLC)	C Corporation	S Corporation
Management	Owner has complete control and entitled to 100% of profits.	General partners have equal management rights.	The general partner manages the business, subject to any limitations of the Limited Partnership Agreement. Limited partners are not involved in management.	Operating Agreement establishes how the business is managed; a manager can be designated to manage the business.	Board of Directors is elected by shareholders and has overall management responsibility; appointed officers have day-to-day responsibility.	Board of Directors is elected by shareholders and has overall management responsibility; appointed officers have day-to-day responsibility.
Capital Contributions	Owner is responsible for required capital and services. Investors generally do not like to fund a sole proprietorship.	General partners contribute capital or services to the partnership. More partners may be added. Does not allow for outside investors.	General and limited partners contribute capital or services to the limited partnership. More partners may be added. Does not allow for outside investors.	Members contribute capital or services. Funding an LLC is not often a preferred method of investment.	Best corporate structure to attract investors. Shareholders purchase stock in the corporation, either common or preferred.	Shareholders purchase stock in the corporation, but only one class of stock is allowed.
Stock	Cannot sell stock.	Cannot sell stock.	Cannot sell stock.	An LLC may offer several classes of membership interest. Offering different classes/types of stock is difficult	Allowed to sell multiple classes/types of stock.	Limited to one class of stock.

	Sole Proprietorship	General Partnership	Limited Partnership	Limited Liability Corporation (LLC)	C Corporation	S Corporation
Meetings Documentation	Not required to hold annual meetings or record meeting minutes.	Not required to hold annual meetings or record meeting minutes.	Not required to hold annual meetings or record meeting minutes.	Members may, but are not required to, hold annual meetings or record meeting minutes.	Required to hold annual meetings or record meeting minutes.	Required to hold annual meetings or record meeting minutes.
Duration of Entity	Terminated at owners discretion or death.	Partnership terminates at upon the withdrawal or death of a partner. The remaining partners may carry on the partnership business, but the partnership is legally a new and different partnership.	Partnership terminates at upon the withdrawal or death of a partner. The remaining partners may carry on the partnership business, but the partnership is legally a new and different partnership.	In most states, an LLC legally dissolves upon the death, disability, withdrawal, bankruptcy, or expulsion of a member. Remaining members must fulfill all remaining legal and business obligations to close the business. Provisions may be included the operating agreement to prolong the life of the LLC if a member decides to leave the business. Difficult to convert to a C Corporation.	Business can exist in perpetuity.	Business can exist in perpetuity. Can be converted to C Corporation, if needed.

Additional Considerations

In discussions with your legal counsel, you might inquire whether or not your jurisdiction allows for the utilization of professional or medical corporations and whether or not there are any issues related to the corporate practice of healthcare when considering your selection of a business entity.



References

- BizFilings. [Starting Your Business.](#)
- [Comparison Chart of the Different Forms of Business Entities.](#)
- Internal Revenue Service. [Business Structures.](#)
- Legal Dictionary. [Limited Liability Company.](#)
- Legal Dictionary. [Partnership.](#)
- The Company Corporation. [Business Comparison Chart.](#)
- US Small Business Administration. [Choose Your Business Structure.](#)

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