1. SOLE PROPRIETORSHIP
    a. Definition
        i. business owned by one person
        ii. legal existence of proprietorship is extension of proprietor
        iii. may have any number of employees
        iv. employee differs from independent contractor
        v. may do business under a tradename
    b. Formation
        i. obtain required state, county, and local licenses
        ii. obtain federal employer identification number if engage employees or independent contractors
        iii. if engage employees:
            1. obtain workers compensation insurance
            2. file form UI-1 with Illinois Department of Employment Security
            3. file form REG-1 with the Illinois Department of Revenue
        iv. verify existence of similar tradenames
        v. register tradename in County where business located
        vi. investigate State of Federal trademark registrations
            1. cannot register trademark until operation begin
        vii. consider copyright registration
        viii. begin operations
    c. Advantages
        i. avoid state corporate income tax
        ii. ease of formation
        iii. no double taxation of income or gain from sale of business assets
        iv. deductions for ordinary and necessary business expenses and deductions for losses taken by owner personally to extent of other income (including spouse's income if reported on joint return) and without any basis limitation
    d. Disadvantages
        i. unlimited liability of owner, including liability for acts done by employees in furtherance of proprietorship business
        ii. no avoidance of Self-Employment tax
        iii. certain fringe benefits unavailable:
            1. deduction for health insurance: 45% - 80% from 1997 - 2006
            2. no exclusion for $50,000 life insurance
            3. no exclusion for employer-provided group legal services
        iv. cannot take maximum pension and profit sharing

    v. may be viewed as unsophisticated by vendors or customers
    vi. top tax bracket is higher than corporations

2. CORPORATION
    a. Definition
        i. an entity created by a state stature known in Illinois as the Business Corporation Act
        ii. exists separately from and independently of the owners
        iii. may have one of more owners
        iv. owners are called shareholders or stockholders
        v. ownership evidenced by stock certificate
        vi. may have any number of employees
        vii. employee differs from independent contractor
        viii. must do business under a tradename
    b. Formation
        i. select tradename
        ii. prepare and file articles of incorporation with Secretary of State
        iii. obtain federal taxpayer identification number
        iv. file initial reports with Department of Revenue and Unemployment Commission
        v. hold initial shareholders' and directors' meetings
        vi. prepare and execute shareholders' agreements
        vii. obtain required licenses
        viii. consider State or Federal registration of tradename
        ix. begin operations
    c. Advantages
        i. limited liability, provided --
            1. sufficient equity
            2. observe corporate formalities
        ii. 100% deduction for health insurance
        iii. exclude 50% of gain on sale of stock (if original issue and held five years)
            1. unavailable for business in which the principal asset is the reputation or skill of one or more employees (such as doctors, lawyers, accountants, financial planners, and other consultants)
        iv. take ordinary loss deduction on sale or exchange of stock, up to $50,000 ($1000,000 if filing joint return)
        v. exclude cost of $50,000 life insurance
        vi. maximum pension and profit sharing
        vii. different classes of stock
        viii. perceived to be sophisticated form of business
        ix. top tax bracket is lower than top individual bracket

d. Disadvantages
    i. no avoidance of Social Security tax
    ii. 7.3% state corporation income tax on income above $1,000
    iii. double tax
        1. reasonable amount of income can be "zeroed out"
        2. "excess" profits subject to dividend treatment or accumulated earnings tax
        3. gain from sale of business assets may be trapped
    iv. deductions for ordinary and necessary business expenses and deductions for losses taken only by corporation, not by shareholders personally
    v. automatic dissolution for failure to file annual report
e. S Corporations
    i. characteristics
        1. generally same as a regular corporation
        2. created and exists under Subchapter S of the Internal Revenue Code
            a. maximum 35 shareholders
            b. husband and wife count as one shareholder
        3. shareholder may not be nonresident alien, another corporation, or most trusts
    ii. Formation
        1. unanimous shareholder consent required
        2. first year -- file election with IRS within 75 days after commence business
        3. after first year -- file election with IRS by 15th day of 3rd month of tax year
    iii. Revocation of Election
        1. automatic if any event occurs that would have initially barred election
            a. effective upon date event occurs
        2. by unanimous shareholder consent

            effective upon date specified by shareholders or if none specified, retroactive to first day of current tax year if made before 15th day of 3rd month or prospective to first day of next tax year

        3. effect of revocation
            a. may not reelect S status without IRS consent
            b. short tax year
    iv. Advantages

1. same limited liability as regular corporation
2. state corporate income tax is lower than a regular corporation
3. possible partial avoidance of Social Security tax
4. no double taxation of income or gain from sale of business assets
5. losses may be deducted personally by the shareholders in proportion to their ownership interest, subject to basis limitations

v. Disadvantages
1. 1.5% state corporate income tax on income above $1,000
2. one class of stock
3. inflexible allocations of income and losses
4. may be accumulated earnings tax if regular corporation operated for one or more years before making election
5. deduction for health insurance: 45% - 80% from 1997 - 2006
6. cannot take maximum pension and profit sharing
7. exclusion of 50% of gain on sale of stock if held for five years is unavailable
8. exclusion for $50,000 life insurance unavailable
9. shareholders taxed on share of profits whether or not distributed
10. top tax bracket is higher than top corporate bracket

3. PARTNERSHIP
   a. Definition
      i. business owned by at least two people
         1. corporation can be a partner
      ii. legal existence of partnership is extension of partners
      iii. may have any number of employees
      iv. employee differs from independent contractor
      v. must do business under a tradename
   b. Formation
      i. see rules for sole proprietorship
   c. Advantages
      i. no double taxation of income or gain from sale of business assets
      ii. deductions for ordinary and necessary business expenses taken by partners personally to extent of other income, subject to basis limitation
      iii. flexible allocations of items of income and deductions

d. Disadvantages
    i. unlimited liability of general partners, including acts done by other partners or employees in furtherance of partnership business
    ii. no avoidance of Self-Employment tax
    iii. 1.5% state income tax on income above $1,000
    iv. deduction for health insurance same as sole proprietor
    v. cannot avoid any Social Security tax
    vi. exclusion for $50,000 life insurance unavailable
    vii. partners taxed on profits whether or not distributed
    viii. partnership agreement strongly recommended and essential if partners desire special allocations of income or deductions
    ix. complex accounting
    x. top income tax bracket is higher than top corporate bracket
e. Types of Partnerships
    i. general partnership
        1. apply above rules
    ii. limited partnership
        1. general and limited partners
            a. general partners
                i. management and control
                ii. usually a corporation
                iii. apply above rules
            b. limited partners
                i. usually investors
                ii. liability limited to amount of investment
                iii. at risk and passive loss rules may further limit deductions
        2. formation
            a. partnership agreement strongly advised
            b. Federal and State securities, disclosures and registration requirements

4. Limited Liability Companies
    a. Definition -- a corporation taxed as a partnership
        i. Illinois statute effective on January 1, 1994
        ii. already exists in several other states and may now be used in Illinois
    b. Advantages
        i. avoids use of limited partnership to structure deal with non-resident aliens that require special allocations or flow-through of gain and loss

ii. structure deals that could not be done through S Corporations due to identity or number of shareholders or single class of stock limitations
iii. structure deals that would be cumbersome through use of partnership having S Corporations as partners due to the large number of participants

c. Disadvantages
   i. must be carefully organized to ensure partnership tax treatment
   ii. not widely used ,so corporate shield may not always be upheld in states that do not yet have a limited liability corporation statute
   iii. same income tax disadvantages as partnerships

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