






Entity Structure Reference for Construction Businesses

	Sole Proprietorship 	Partnership 	LLC 	S-Corp 	C-Corp 
Liability	<ul style="list-style-type: none"> Unlimited personal liability Owner's assets exposed 	<ul style="list-style-type: none"> General partners have unlimited liability LPs/LLPs provide limited protection 	<ul style="list-style-type: none"> Limited liability protection (varies by state) 	<ul style="list-style-type: none"> Strong liability protection for shareholders 	<ul style="list-style-type: none"> Strongest liability protection Corporation is a separate entity
Taxation	<ul style="list-style-type: none"> Pass-through Income and self-employment tax reported on personal return 	<ul style="list-style-type: none"> Pass-through IRS requires annual information return 	<ul style="list-style-type: none"> Default pass-through Can elect S- or C-corp taxation 	<ul style="list-style-type: none"> Pass-through Avoids double taxation Must meet IRS eligibility rules 	<ul style="list-style-type: none"> Double taxation—corporate income tax + tax on dividends
Ownership & Continuity	<ul style="list-style-type: none"> Owned by one individual No continuity after owner exits 	<ul style="list-style-type: none"> May dissolve if partner leaves unless agreement specifies otherwise 	<ul style="list-style-type: none"> Single or multiple members Continuity rules vary by state 	<ul style="list-style-type: none"> Independent of shareholders Continues even if owners change 	<ul style="list-style-type: none"> Unlimited shareholders; strong independent continuity
Formation & Compliance	<ul style="list-style-type: none"> Automatic, no formal filing Minimal paperwork 	<ul style="list-style-type: none"> Easy to set up Partnership agreement strongly recommended 	<ul style="list-style-type: none"> Formed under state law Requires filings, fees, annual reports 	<ul style="list-style-type: none"> Must incorporate and elect S-corp status with IRS Stricter compliance (bylaws, meetings, reports) 	<ul style="list-style-type: none"> Most formal Requires incorporation, bylaws, board/shareholder meetings, annual reports
Financing & Growth	<ul style="list-style-type: none"> Limited Cannot issue stock Credibility issues with lenders/clients 	<ul style="list-style-type: none"> Limited Funding usually comes from partners or loans Cannot issue stock 	<ul style="list-style-type: none"> Flexible for small to mid-sized firms Cannot issue stock 	<ul style="list-style-type: none"> Limited Capped at 100 shareholders Cannot issue multiple classes of stock 	<ul style="list-style-type: none"> Best for raising capital Can issue stock, attract investors, unlimited shareholders
Administration	<ul style="list-style-type: none"> Minimal recordkeeping and reporting 	<ul style="list-style-type: none"> Simple administration IRS reporting required 	<ul style="list-style-type: none"> Moderate Annual reports and fees vary by state 	<ul style="list-style-type: none"> Stricter than LLCs/partnerships Risk of losing status if requirements unmet 	<ul style="list-style-type: none"> Most complex Heavy compliance and governance obligations
Licensing & Bonding	<ul style="list-style-type: none"> May face licensing restrictions in many states Harder to qualify for surety bonds or insurance 	<ul style="list-style-type: none"> Similar to sole proprietorship May face restrictions on licensing and bonding capacity 	<ul style="list-style-type: none"> Generally accepted for contractor licensing; Preferred by sureties and insurers 	<ul style="list-style-type: none"> Widely accepted for licensing and bonding Strong structure for compliance-heavy projects 	<ul style="list-style-type: none"> Universally accepted for licensing and bonding Strongest for high-value or public projects
Perception & Credibility	<ul style="list-style-type: none"> Often seen as less professional May struggle to win contracts with larger clients 	<ul style="list-style-type: none"> Credibility depends on agreement and partners' reputation Less formal than LLC/Corp 	<ul style="list-style-type: none"> Seen as more credible and stable than sole proprietorships/partnerships 	<ul style="list-style-type: none"> Viewed as professional and credible Inspires confidence with clients and investors 	<ul style="list-style-type: none"> Highest credibility Preferred for large contracts and attracting investors
Flexibility & Adaptability	<ul style="list-style-type: none"> Least flexible Tied directly to owner Cannot easily adapt ownership or tax structure 	<ul style="list-style-type: none"> More flexible than sole proprietorship but still limited Ownership changes can force restructuring 	<ul style="list-style-type: none"> Highly flexible Can elect tax treatment (sole prop, partnership, or corp) and structure ownership as single- or multi-member 	<ul style="list-style-type: none"> Moderately flexible Strong governance rules but tax treatment is fixed once elected 	<ul style="list-style-type: none"> Least flexible Rigid compliance but highly scalable with stock issuance and unlimited shareholders
Best For	Very small-scale solo contractors (rarely recommended in construction)	Small groups testing business ideas Not ideal for high-liability work	Small-to-mid contractors needing liability protection with flexibility	Profitable/growing mid-sized firms seeking tax efficiency	Large or fast-growing companies needing investors and scalability