



CLIENT GUIDE

Choosing a U.S. Business Structure

A plain-language look at the five structures the IRS recognizes, and what changes when you're building from outside the U.S.

The IRS sums it up simply: your form of business determines which income tax return you have to file. But the choice runs deeper than paperwork. It sets who is personally on the hook if the business runs into debt, how its profits get taxed, and how much flexibility you have as the business grows, brings on partners, or eventually sells.

The five structures below split into two groups, and knowing which group you're in tells you most of what you need to know about the tax side.

PASS-THROUGH Taxed Once, on the Owners' Returns

Sole proprietorships, partnerships, S corporations, and LLCs by default skip a corporate-level tax. Profit and loss flow straight to the owners, who report their share once, at their own individual rates.

ENTITY-LEVEL Taxed Twice, Once as It's Earned and Again as It's Paid Out

A C corporation is a separate taxpayer. It settles its own bill on Form 1120, and shareholders settle theirs again on any dividends the corporation distributes.



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Which Structure Fits You?



Part One — The Five Structures

STRUCTURE · 01

Sole Proprietorship

The simplest structure to start, and the thinnest shield you'll have.

A sole proprietorship is an unincorporated business owned by one person. It's the default if you start doing business on your own and never file paperwork to become anything else. There's no legal separation between you and the business, which is both the appeal (nothing to set up) and the risk (nothing to shield you).

Liability is unlimited. Business debts and claims are personal debts and claims, since the business itself does not file or pay tax; everything is reported directly on your Form 1040.

CORE FILINGS

- Form 1040 with Schedule C for profit or loss
- Schedule SE for self-employment tax
- Form 1040-ES for quarterly estimates
- Forms 941, 943, 944, W-2, and W-3 if you have employees, plus 1099s for contractors

STRUCTURE · 02

Partnership

Two or more people, one return each.

A partnership is the relationship between two or more people who each contribute money, property, labor, or skill to a trade or business and share in its profits and losses. General partners can bind the business and carry personal liability; limited partners are generally protected up to what they've invested.

It's a pass-through structure. The partnership files an information return but does not itself pay income tax; profits and losses flow to the partners, who report their share on their own returns.

CORE FILINGS

- Form 1065 at the partnership level, with a Schedule K-1 issued to each partner
- Schedule E, and Schedule SE where self-employment tax applies, on the partner's own return



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- Form 1040-ES for a partner's estimated taxes
 - Publication 541 covers the full lifecycle, from formation through termination

STRUCTURE · 03

C Corporation

The corporation pays first. You pay again when it pays you.

A corporation is formed when shareholders exchange money, property, or both for shares of stock. Once formed, it's a separate taxpayer in its own right, distinct from its owners. That separation is what gives shareholders liability protection limited to what they invested, and it's also the source of the structure's best-known drawback.

Corporate profits are taxed twice: once to the corporation when earned, and again to the shareholders when distributed as dividends. Shareholders cannot deduct the corporation's losses on their own returns.

CORE FILINGS

- Form 1120 for income tax
- Forms 941 and 940 if the corporation has employees
- E-filing is required for corporations filing ten or more returns a year, as of 2024
- Publications 542 and 583 provide additional guidance

STRUCTURE · 04

S Corporation

One layer of tax, if you qualify to elect it.

An S corporation is a corporation that elects to pass its income, losses, deductions, and credits through to shareholders instead of paying tax at the entity level. It pairs a corporation's liability protection with tax treatment closer to a partnership, but the eligibility rules are strict enough to trip up a fair number of would-be filers.

To qualify, the corporation must be domestic, hold to a single class of stock, and stay under 100 shareholders, all of whom must be individuals, certain trusts, or estates. Partnerships, corporations, and non-resident aliens cannot hold shares, and certain financial institutions and insurance companies are ineligible outright.

CORE FILINGS

- Form 2553, signed by every shareholder, to elect S status
- Form 1120-S annually, with a Schedule K-1 for each shareholder



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- Employment tax forms where applicable, and Form 1040-ES for shareholder estimates

STRUCTURE · 05

Limited Liability Company (LLC)

State law builds it. Your election decides how it's taxed.

An LLC is a business structure created under state law rather than federal law, so the details vary by state and are worth confirming before you form one. Owners are called members, and most states allow a single member, multiple members, or a mix of individuals, corporations, other LLCs, and foreign entities as owners.

Federal tax treatment is flexible by default and by election. A single-member LLC is treated as a disregarded entity, reported on the owner's return; a multi-member LLC defaults to partnership treatment. Either can elect corporate treatment instead by filing Form 8832. For employment and excise taxes, a single-member LLC is still treated as a separate entity.

CORE FILINGS

- Form 8832, only if changing the default classification, generally effective no more than 75 days before filing and no later than 12 months after
- Otherwise, the LLC reports through the owner's return, a partnership return, or a corporate return, depending on its classification



Part Two — Comparing the Five at a Glance

Structure	Owner Liability	Federal Tax Treatment	Core Filing
Sole Proprietorship	Unlimited personal liability	Reported on owner's Form 1040	Schedule C, Schedule SE
Partnership	General partners: unlimited. Limited partners: capped at investment.	Pass-through to partners	Form 1065, Schedule K-1
C Corporation	Limited to investment	Taxed at the entity level, then again on dividends	Form 1120
S Corporation	Limited to investment	Pass-through to shareholders (built-in gains and passive income can still be taxed at the entity level)	Form 2553 election, Form 1120-S, Schedule K-1
LLC	Limited to investment, under state law	Disregarded entity, partnership, or corporation, by election	Form 8832 if electing; otherwise the owner's return or Form 1065 / 1120



Part Three — Building From Outside the U.S.

Every structure above is open to a founder or investor based abroad, but three issues come up often enough with our international clients that they're worth flagging before you file anything.

CROSS-BORDER · 01

S Corporations Are Off the Table for Non-Resident Aliens

The eligibility rule that catches people by surprise.

If you don't hold a green card or meet the substantial presence test, an S election isn't available to you personally as a shareholder, even if the business would otherwise qualify on every other count.

CROSS-BORDER · 02

C Corporations and LLCs Are the Usual Starting Point

Neither one asks where you live.

Both structures are open to non-resident founders, since neither has a citizenship or residency requirement on ownership. Which of the two makes more sense depends on where you're investing from, whether a tax treaty applies, and how you plan to move profits home.

CROSS-BORDER · 03

The U.S. Return Is Only Half the Picture

A structure that looks efficient here can cost you there.

Entity choice interacts with your immigration status and your home country's tax rules, not just your U.S. filing. A structure that looks efficient on the U.S. side can create reporting obligations, withholding, or double taxation once your home country's rules are layered in.



NEXT STEP

Which Structure Fits You?

This guide is not a prescription. Start with what you're actually deciding, whether that's a first filing, bringing on a partner, or setting up before you move, and a conversation will clarify which of these structures, if any, fits the facts of your situation.

How Crossbridge Can Help

We work with founders, investors, and professionals setting up in the U.S. from abroad, and with U.S. businesses bringing on international owners. If you're weighing entity choice, we can walk through the trade-offs for your specific situation, including cross-border reporting, treaty positions, and how the structure holds up as the business grows.

Source: Internal Revenue Service, Business Structures (irs.gov).

Crossbridge Global Tax provides tax planning and compliance services and does not provide investment, legal, or immigration advice. This guide is for general educational purposes, reflects federal tax law in effect for 2026, and may not apply to every situation. Please consult your Crossbridge advisor, together with your legal and immigration counsel, before choosing or changing a business structure.