

## **Prior Work and Future Directions on Choice of Entity and Race**

Emily Satterthwaite, Professor of Law, Georgetown University Law Center

### **Abstract**

This article uses a large panel dataset that contains legal status, owner, business, financing, and other firm-specific information collected from an eight-year survey of nearly 5,000 enterprises that were formed in 2004. It presents four main results. First, C corporation status is associated with firm failure rates that are 38 percent higher than those of non-C corporations with similar characteristics. Second, this C corporation survival penalty persists at nearly the same magnitude and significance even after a subset of “anticipated cash-exit” C corporations with (a) venture capital investors or (b) employee stock option plans are separated out. Third, nonwhite and foreign-born entrepreneurs have a significantly higher likelihood of choosing C corporation status. Fourth, within the subset of firms that appear eligible to elect out of the default (subchapter C) corporate tax classification and into the tax-advantaged subchapter S classification, nonwhite and older entrepreneurs are significantly more likely to remain in C corporation status. These findings suggest that increased legal status complexity is unlikely to be neutral from a distributive perspective.