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Bob and Dave have the choice of forming a partnership or S corporation. Either would allow two investors or business owners. The choice then would be which is the most advantageous for each person.

Bob plans to contribute land so he would then acquire either a percentage of ownership in the partnership or a percentage of stock ownership in an S corporation. In the partnership Bob would not recognize a gain or loss because he is receiving a partnership interest and the business does not plan to sell the property acquired. However, under the S corporation he would receive stock in exchange for the property and this is treated the same as with the partnership. So either kind of business would work well for him in this case.

Dave is offering services for his interest so under either a partnership or S corporation this is considered to be the same as being compensated for services rendered. Under a partnership he would recognize full market value of the partnership interest. Under an S corporation he would recognize the value of the stock received. He becomes an owner but must claim the market value of the interest in the partnership as income if a partnership is formed. If an S corporation is formed the value of the stock received must be claimed as income. In both types of businesses Dave's transaction is considered ordinary income.

I would recommend that they form an S corporation. Doing so may lower taxable income for them because the tax rate may be lower than it is for individuals. Whereas, forming a partnership both Bob and Dave would have to claim gains and losses on their individual tax returns and this may be something they could not afford.

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Under a partnership, a partner (Bob) who contributes land in exchange for interest (capital interest) recognizes no gain or loss and the partnership also recognizes no gain or loss on the contribution of property (p. 9-6). A partner (Dave) who contributes services in exchange for interest (profit interest) will recognize ordinary income. The amount and timing of the income are established under Section 83. The income will generally be recognized after a restriction lapses or the interest is transferred. The capital interest received in the partnership is taxable and the profits interest is taxable on future income as it is earned (p. 9-10).

With the S-Corporation the land Bob contributes would be exchanged for stock ownership and he would have interest in the business. Dave would not have stock ownership until after he has exchanged property (including cash, etc.) for stock. I would probably recommend a partnership, but I think it depends on if they are going to seek out investors. In that case, I would probably recommend the S-Corporation.