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SHOULD YOUR SMALL BUSINESS BE AN S CORP?

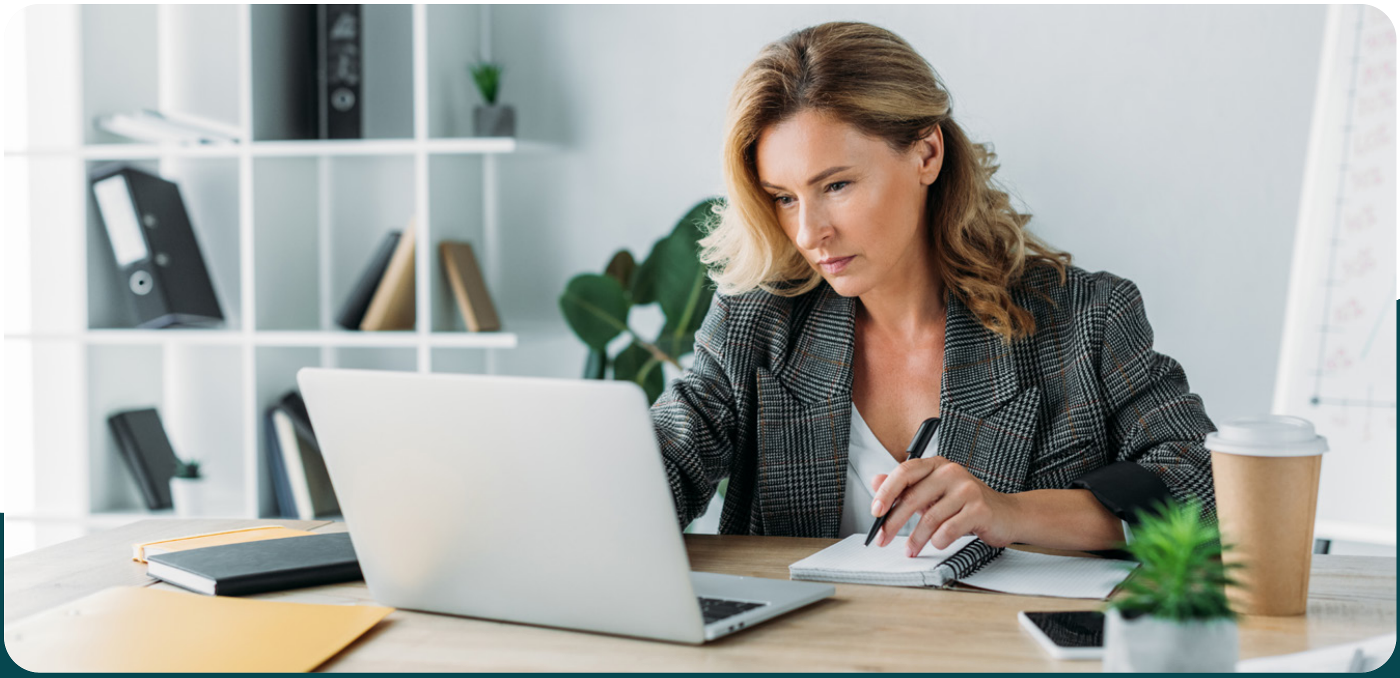
When it comes to structuring your small business from a tax perspective, you've got a few options.

The most common types of structures for small businesses are:

- **Sole proprietorship**
- **Partnership**
- **Corporation, often called a C corp**
- **S corporation**
- **Limited Liability Company, or LLC**

For a more in-depth look at the different types of entities, check out our e-book.

There are less common types, like benefit corporation, close corporation, nonprofit corporation, and cooperative. But for this e-book, we'll be looking that plusses and minuses of one of the more common types: the S corp.



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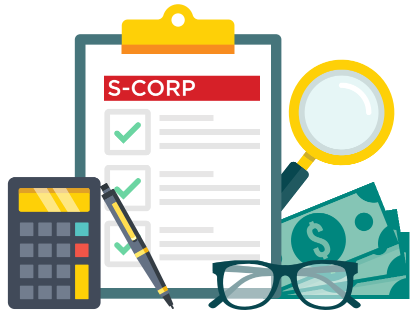
WHAT IS AN S CORP?



S corporations pass their income, losses, deductions, and credits through to their shareholders for federal tax purposes. They're called "S corp" because the IRS taxes them under Subchapter S of the Internal Revenue Code.

According to the IRS, S corporations must:

- Be a domestic corporation.
- Have only allowable shareholders, which:
  - May be individuals, certain trusts, and estates, and
  - May not be partnerships, corporations, or non-resident alien shareholders.
- Have no more than 100 shareholders.
- Have only one class of stock.
- Not be an ineligible corporation *(e.g., certain financial institutions, insurance companies, and domestic international sales corporations)*.

S CORP ADVANTAGES

- There's limited liability for management and shareholders. So, you don't have to worry about losing your house, car, savings, etc., if the business fails, as long as you keep your business affairs separate from your personal ones. *(**Note:** Although an S corp may have shareholders, that doesn't necessarily mean it's publicly traded.)*
- Profits go to shareholders, and the IRS taxes those profits at their personal tax level. There's no corporate tax and no "double taxation."
- S corp owners must earn a salary and can also receive dividend payments. This can lead to a lower overall tax bill.

S CORP DRAWBACKS

- As noted above, the qualifications can be pretty strict. Your business is limited in how many shareholders it can have as well as the class of stock it can issue. Also, it's possible your state's tax law might not recognize an S corp.
- S corps have to allocate profits and losses among its owners based on the percentage of ownership or how many shares a shareholder holds. With other entity types, like an LLC, the owners get to decide how to divvy up profits and losses.

Need help deciding what structure is right for your small business? We can help!

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