S Corporation

The IRS will designate some corporations as an S Corporation to allow them to avoid double taxation [once to the corporation and again to the shareholders].

Taxes

Forming an S Corporation lets you enjoy the limited liability of a corporate shareholder but pay income taxes as if you were a sole proprietor or a partner.

Formation

To create an S corporation, you must first create a regular corporation by filing articles of incorporation with your secretary of state's office or your state's corporations division. Then, to be treated as an S corporation, all shareholders must sign and file IRS form 2553.

Advantages

- Employment tax is limited only to the wages of an employed shareholder.
- There are some tax credits available as business expenses
- The company is separate from shareholders, allowing them to sell shares without impacting the business

Disadvantages

- Stricter operational process than a partnership or LLC.
- Shareholders working for the business must be paid fair market value compensation or the IRS can reclassify corporate earnings as wages for taxation purpose.
- There cannot be more than 100 shareholders
- Foreign share ownership is prohibited

Examples

DELL, Price Waterhouse Coopers, and Fidelity Investments

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