



## LLC vs. S-Corporation. Which is right for your start-up?

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One question I get a lot from aspiring business owners is “Joe, when starting a business, is it better to be setup as an LLC or S-Corporation as it relates to tax filings?”

Before I explain the differences, however, know that because every business is different, it’s always best to get the personal advice of an accountant or tax professional before making your final decision.

### **Let’s start with a short summary of what LLC and S-Corporations have in common:**

**You’ll avoid C-Corporation “double taxation”**—In a C-Corporation, profits are essentially taxed twice: the business is taxed on income and then shareholders are taxed on their individual earnings. As an S-Corp or LLC, profits are only taxed once.

**Owners are responsible for paying company taxes**—In both structures, business owners and shareholders are responsible for paying taxes on any profits—whether those profits are retained in the company or paid out as income.

**You’ll have liability protection**—Both of these structures provide some financial protection by separating your personal assets from any company liabilities. This is good!

### **Now let’s talk about the differences between the two:**

**S-Corps require many “corporate activities”**—Unlike LLCs, S-Corp status requires you to create a board of directors, file an annual report, and hold shareholder meetings. And that’s just the start. If you don’t have the time or energy for this type of business activity, then the LLC is probably for you.

**LLCs allow for flexible income allocation**—If your LLC has multiple owners, each with an equal share of ownership, but one of you is doing all the work, income can be allocated appropriately. Not so with the S-Corp where the percentage of earnings and percentage of ownership must match.

**LLCs can issue multiple classes of stock**—If you’ll be issuing stock, read this: LLCs allow you

to issue multiple classes, such as common and preferred stocks. S-Corps are only allowed to issue one class.

**LLCs may let you pass more losses through to your personal income reporting**—While both structures let you reflect company losses on your personal income, LLCs offer some types of businesses, such as real estate, an advantage.

### **So, with LLCs being so flexible, why would anyone choose S-Corporation status?**

Well, if your business fits the profile below, S-Corp status could save you a portion of the self-employment taxes you pay each year for your own social security, Medicare, and Medicaid:

- You're a service business,
- You don't plan to borrow money for your business,
- You don't own business property that's likely to appreciate, and
- You don't plan to expand ownership to more than 100 people or to non-resident aliens.

Sound like your business? Then an S-Corp could translate into a tax savings of several thousand dollars a year depending on the size of your business—certainly worth investigating.

### **Want to know more?**

Check out the Connect post "[Is your business structure appropriate for your goals?](#)". Best of luck with your new business!

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