

BLUE BEAR

BLUE RIBBON TIMES

A NEWSLETTER TO INFORM OUR CLIENTS ON THE CURRENT ISSUES
AFFECTING THE TAX AND ACCOUNTING WORLD



Should Your Small
Business
Become an S Corp?

Let's Start With the Basics

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What is an S Corp?

An **S Corporation** (Small Business Corporation) is a business elected for S Corporation Status through the IRS. This status allows the taxation of the company to be similar to a partnership or sole proprietor as opposed to paying taxes based on a corporate tax structure.

The key feature of an S Corp is the tax advantages it offers.

It issues stock and is governed as a corporation, with directors, officers, and shareholders. The owners (the shareholders) have protection from liability - the shareholder's personal assets, such as personal bank accounts, cannot be seized to satisfy business liabilities.



S Corp, Yes or No?

Advantages

- Provides owners limited liability protection, regardless of its tax status.
- Business income, as well as many tax deductions, credits, and losses, are passed through to the owners, rather than being taxed at the corporate level.
- An owner can opt to receive both salary and dividend payments from the corporation. This can result in a lower tax bill overall.
- In the early years of starting a business, you will have many expenses and losses. These can be offset against your personal income.
- Interests in an S corporation can be freely transferred without triggering adverse tax consequences.

Disadvantages

- Strict qualification requirements - In order to be eligible to make an S corporation election, the corporation must meet strict requirements on the number and type of shareholders and shares.
- Because it is a corporation, an S corporation is required to allocate profits and losses among the owners based strictly on the percentage of ownership or number of shares held.
- An S Corp must observe all the corporate formalities imposed by its home state's corporation statute.



To form an S corp, you must prepare and file Articles of Incorporation or a Certificate of Incorporation with the proper state authorities. You must also pay filing fees and any applicable initial franchise taxes or other fees.

Sources and More Information

This is a brief explanation of S Corp information. Check out these resources to find out more.

<https://www.wolterskluwer.com/en/expert-insights/s-corporation-advantages-and-disadvantages>

<https://www.wolterskluwer.com/en/solutions/ct-corporation/s-corporations-offer-advantages-and-disadvantages>

<https://www.thebalancesmb.com/should-your-small-business-become-an-s-corporation-2951770t>

Blue Bear Tax Solutions



A Veteran Tax Specialist and former Senior IRS Agent with over a decade of tax experience. Extensive tax knowledge and experience handling some of the most complicated tax issues.

We specialize in preparing and auditing all types of tax returns including personal, small business (LLC's), employment, corporations, partnerships, non-for-profits, and trust/estates. We also have in-depth experience with tax preparation and auditing software.

Find Out About Our Blue Bear Foundation



We provide financial assistance to women in pursuit of a degree with emphasis on veterans and women of color. Helping women achieve sustainability is at the heart of our work.

<http://bluebearfoundation.com/home/>