GUIDE

S-Corp vs LLC, and when the election pays off

An LLC is a legal structure. An S-Corp is a tax election an LLC can make. The election lets you split profit into a salary, which carries payroll tax, and distributions, which don't carry self-employment tax. It usually pays once profit is comfortably above a reasonable salary for your work, after the extra payroll and filing costs.

QUICK FACTS

- **Election.** Form 2553, by March 15 for an existing calendar-year LLC
- **Saves.** Self-employment tax on distributions
- **Costs.** Payroll, a separate 1120-S and sometimes state fees
- **Must have.** A reasonable salary through payroll
- **Doesn't change.** Income tax on the profit

What's the difference?

FEATURE	LLC, DEFAULT TAX	LLC TAXED AS S-CORP
Legal protection	Yes	Same
How you're paid	Draws	Salary through payroll, plus distributions
Self-employment tax	On most of the profit	Payroll tax on the salary only
Returns	Schedule C (one owner) or Form 1065	Form 1120-S, K-1s, plus payroll returns
Extra yearly cost	None	Payroll service, the 1120-S, some state fees

Worked examples

Each example compares federal self-employment tax as a regular LLC with payroll tax on the salary as an S-Corp, then subtracts $2,500 a year for the extra payroll and return costs. Income tax, the qualified business income deduction and state taxes aren't included, and the 2026 Social Security wage base of $184,500 applies.

General information, not tax advice for your situation.

PROFIT	SALARY	LLC SELF-EMPLOYMENT TAX	S-CORP PAYROLL TAX	NET AFTER COSTS
$60,000	$40,000	$8,478	$6,120	a loss of about $140
$120,000	$60,000	$16,955	$9,180	about $5,275
$250,000	$100,000	$29,573	$15,300	about $11,775

At $60,000 of profit, the election doesn't pay. At $120,000 it clearly does. The salary drives most of the result, which is why it has to be one you can defend. Try your own numbers in the S-Corp calculator.

How do you set a reasonable salary?

Start with what you'd pay someone else to do your job. The IRS looks at your duties, your time, your experience, what similar businesses pay and what the company can afford. Industry salary surveys and Bureau of Labor Statistics wage data are common starting points. Write down how you got to the number and revisit it every year as the business changes. Our reasonable salary guide goes through it step by step.

A salary that's too low is the most common way S-Corp owners get into trouble. If the IRS reclassifies distributions as wages, back payroll taxes, penalties and interest follow.

What does an S-Corp cost to run?

- A payroll service, even if you're the only employee
- Quarterly Form 941 and state payroll filings, plus a W-2 for you
- Form 1120-S and a K-1, separate from your personal return
- State costs where they apply, like California's 1.5% S-Corp tax with an $800 minimum

When do you file Form 2553?

To take effect for a tax year, no more than two months and 15 days after that year starts. For an existing calendar-year LLC, that's March 15. For a brand-new LLC, it's two months and 15 days after it starts doing business. All owners sign. If you miss the deadline, the IRS grants late-election relief in many cases when there's reasonable cause.

State rules to check

Most states follow the federal S election, but not all treat it the same. California taxes S-Corps at 1.5% of net income. New York City doesn't recognize the S election for its corporate tax. Check your state before you elect.

Can you undo it?

Yes, by revoking the election, but you generally can't elect S status again for five years. That's another reason to run real numbers first, ideally with a year of clean books behind them.

General information, not tax advice for your situation.

Common questions

At what profit does an S-Corp

There's no single number. It depends on what a reasonable salary is for your work and on your state. For many service businesses, the math starts working somewhere in the high five figures of profit.

Is an S-Corp

For tax, it's a pass-through like an LLC, so the profit is taxed on the owners' personal returns. Legally, an LLC that elects S status stays an LLC.

Does the S-Corp

Yes. Your salary isn't qualified business income, so a higher salary lowers that deduction a little. It's part of the math we run.

Want a plan for this year?

We run your numbers and show you the options. Book a free 30-minute call at eminenttax.com/contact or call (972) 347-4590.

eminenttax.com

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