

BUSINESS FORMATIONS INFO SHEET

HEADLINE

TaxPlus will help you start your business with confidence.

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TaxPlus can help you identify the most advantageous type of structure for your business plan, and file all the paperwork necessary for you to start your enterprise with ease. After your company is formed, we can help you stay on top of tax regulations, tax filings and other tax information that may affect your business.

Below is a summary of types of business formations. To learn more, contact us to arrange a free consultation.

C Corporations

The most common type of U.S. corporation is the C Corporation. By forming a C Corporation, business owners create a separate legal structure that helps to shield their personal assets from judgments against the company.

The C Corporation is a time-tested business formation. Among its advantages are:

- Limited liability for directors, officers, shareholders, and employees
- Enhanced credibility among suppliers and lenders
- Unlimited growth potential through the sale of stock
- Certain tax advantages, including tax-deductible business expenses

However, the C Corporation structure also has a few drawbacks. For example, a C Corporation's profits are taxed when earned, and taxed again when distributed as shareholder dividends: an effect known as "double taxation". Shareholders in a C Corporation are also not allowed to deduct any corporate losses. To avoid these concerns, many small business owners choose to form an S Corporation instead.

S Corporation Election – Many C Corporations elect to file as an S Corporation because of the advantages this provides the business. These include:

- No double taxation. Instead, there is pass-through taxation (the company's gains or losses are passed along to its shareholders)
- Shareholders can generally deduct their share of the corporation's net operating loss against their personal income.

To elect S Corporation status, companies that meet the criteria for becoming an S Corporation, must file IRS Form 2553, "Election By a Small Business Corporation". Timing is critical when filing a Form 2553.

Professional Corporation

In many states, people in certain occupations (e.g. doctors, lawyers and accountants), who want to incorporate their practice can do so only through a "professional corporation" (PC) or "professional service corporation" (PSC).

The list of professionals required to incorporate as a professional corporation is different in each state. In general, mandatory professional incorporation requirements apply to these professionals:

- Accountants
- Engineers
- Health care professionals (e.g. Audiologists, Dentists, Nurses, Opticians, Optometrists, Pharmacists, Physical Therapists, Physicians and Speech Pathologists)
- Lawyers
- Psychologists
- Social Workers
- Veterinarians

The IRS classifies most professional corporations as "personal service corporations", for which corporate income is taxed at a flat 35%.

Limited Liability Company

Like a corporation, a Limited Liability Company (LLC) offers protection from personal liability for business debts. However, while a corporation must pay its own taxes, an LLC is a pass-through tax entity. The profits and losses of the business pass through to its owners, who report them on their personal tax returns by choosing to treat the LLC as an S Corporation, partnership or sole proprietorship.