



Entity Classification Optimization (S Corporation)

Making the Right Decision for Your Business



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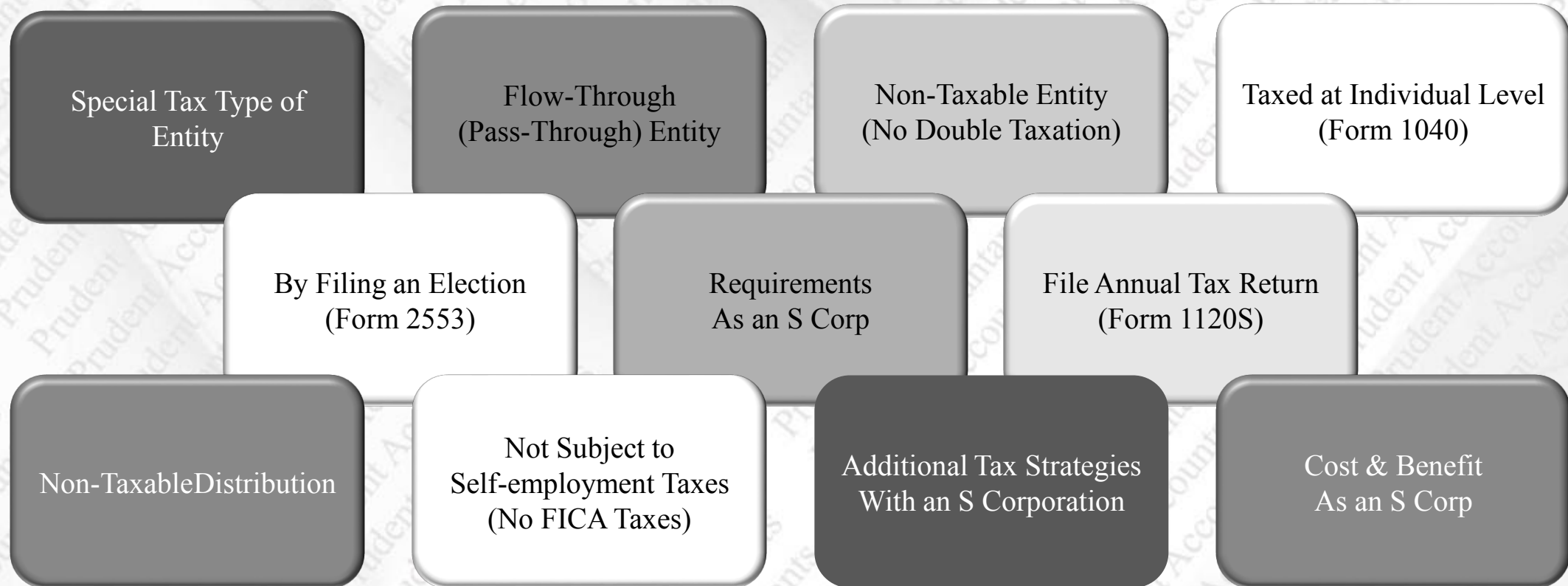
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Entity Classification Optimization

(1) What Is S Corporation?

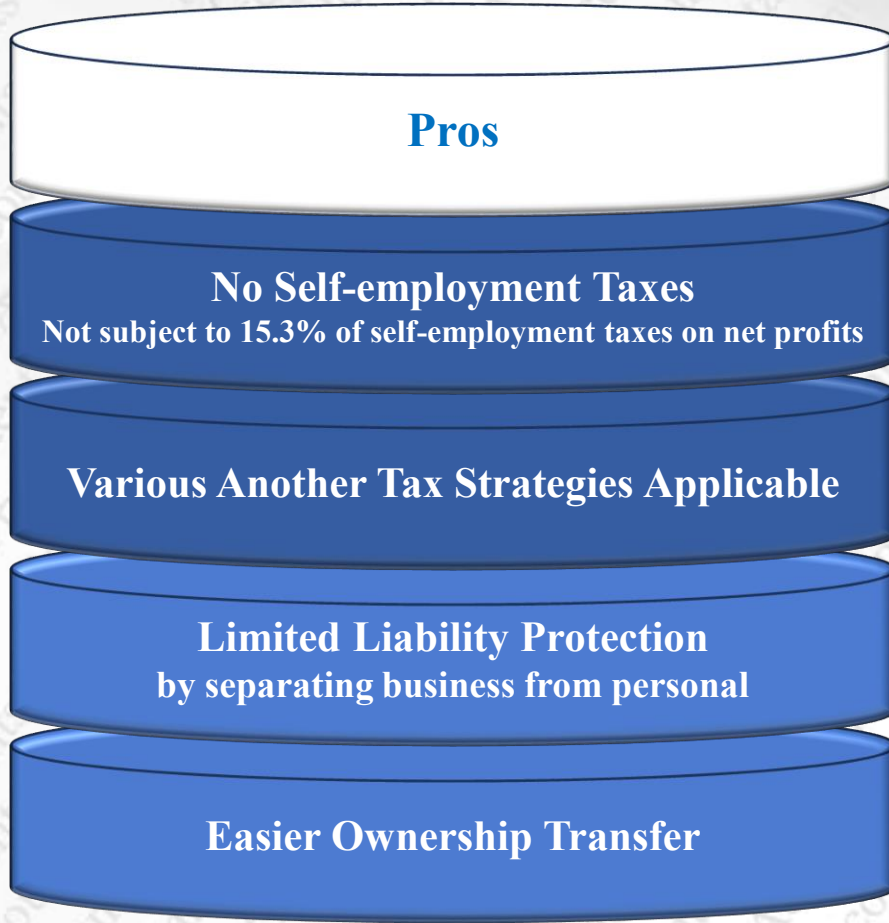
An S Corporation is a special tax type of corporation that elect to pass corporate income, losses, deductions, and credits to their shareholders. Accordingly, shareholders of S corporations report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates **without being subject to self-employment taxes or double taxation at the corporate level.**



Entity Classification Optimization

(2) Pros & Cons of S Corporation

❑ S Corporation Vs. Schedule C (Sole Proprietorship or Single Member LLC / Disregarded Entity)



Vs.



Entity Classification Optimization

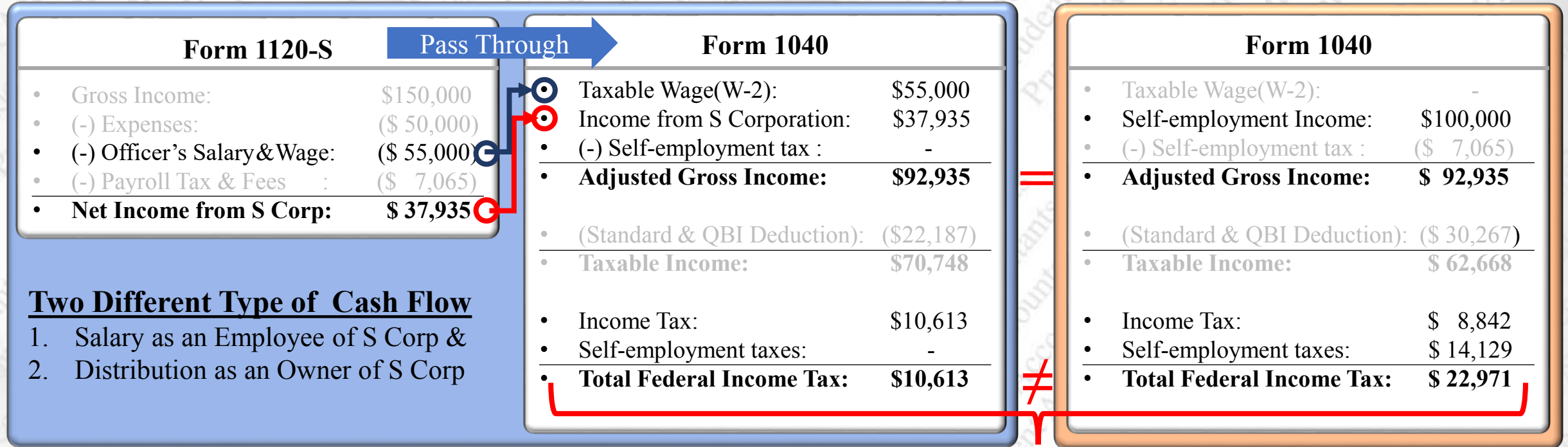
(3) Tax Reporting: S Corporation Vs. Schedule C

Example Assumptions,

- Single filer, having \$100,000 of net business income (\$150,000 of gross revenue and \$50,000 of expenses) & no other source of income
- Take 60% of net income from business for personal use & reinvest 40% to future business or the market value of service provided by owner is \$55,000 based on the state average hourly rate jobs category

S CORPORATION

SCHEDULE C



\$12,358 of Gross Benefit

(The net benefit will be lower considering compliance costs and payroll taxes.)

Entity Classification Optimization

(4) Requirements to Be Eligible for S Corporation

ELIGIBLE (O)

INELIGIBLE (X)

Business Entity Test

- Domestic Corporation (Inc, Corp, LLC)
- Having No More than 100 Shareholders

- Foreign Corporation,
- Corp Having More than 100 Shareholders
- Certain Corps(Financial Institutions, Insurance Companies, etc.)

(AND)

(OR)

Shareholder Test

- Individual (U.S. Citizen & Resident Alien)
- Certain S Corporation (QSSS)
- Certain Trusts and Estates

- Partnership
- C Corporation
- Non-Resident Alien

(AND)

(OR)

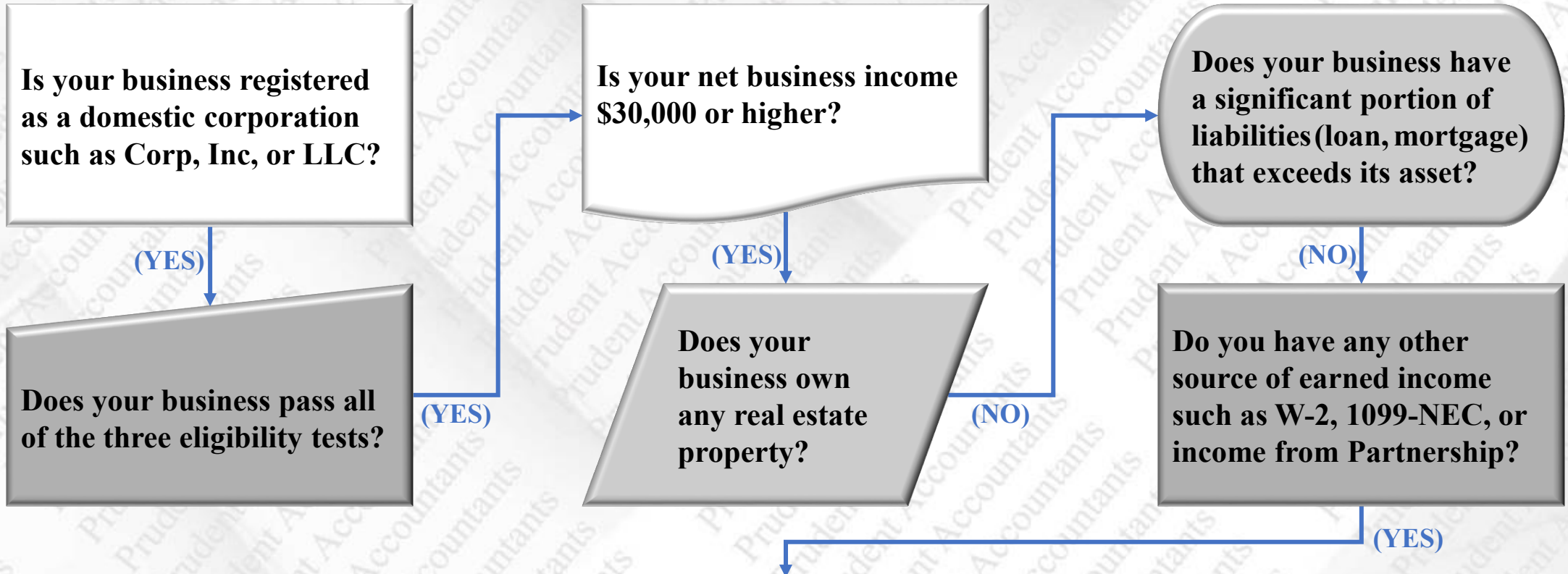
Class of Stock Test

- Have Only One Class of Stock
(Proportionate Distribution)

- Have Multi Classes of Stocks
(Disproportionate Distribution)

Entity Classification Optimization

(5) Is S Corporation Election Right for My Business?



Right time to consider an S Corp election. Prudent Accountants is ready to support all your needs.

Bookkeeping

Tax & Planning

Payroll Processing

CFO Service

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