

SHOULD I BE AN S CORPORATION OR AN LLC?

This is one of the most frequently asked questions in the tax office. The answer is simple, but everyone says, "But, my friend said..." Until your friend prepares income tax returns for more than 20 years, do not listen to them.

S corporations are for business that do things.

LLC's are for business that own things.

There you go. So very simple.

S corporations are:

- Actual corporations, and are tax advantaged for earned income. LLC's are subject to self-employment tax (15.3%) on 100% of their profits. S corps only have to pay self-employment tax on a reasonable wage.
- Able to have just one shareholder
- Shareholders must be natural people and US citizens. They cannot be other companies or foreigners
- A shareholder's profit from a business is in direct proportion to their ownership percentage. If you own 25% of an s corp that has \$10,000 in profit, you will have to claim \$2,500 in income.

LLC's are:

- Partnerships. To be recognized tax wise they require two members at least.
- If properly formed, LLC's can be used to shield assets from judgement in a lawsuit. This is why they are for business that own things, like rental property of boats. If there is an LLC with you as the 99% member and someone else as the 1% member, and you personally are sued, outside of the LLC's business, the person who gets a judgement against you will not be able to seize the asset.
- LLC members can be natural people, other business or non-US nationals
- LLC's can specially allocate their profit and losses so the amount you recognize is not tied to your membership interest, necessarily

So....if you are a consultant, or you make widgets, or swing a hammer or you have a business that does things.....**S CORPORATION**

If you own property (other than your homestead), or an expensive boat, or an expensive car, or a motorhome, or any other asset that is titled or can be lost in a lawsuit...**LLC**