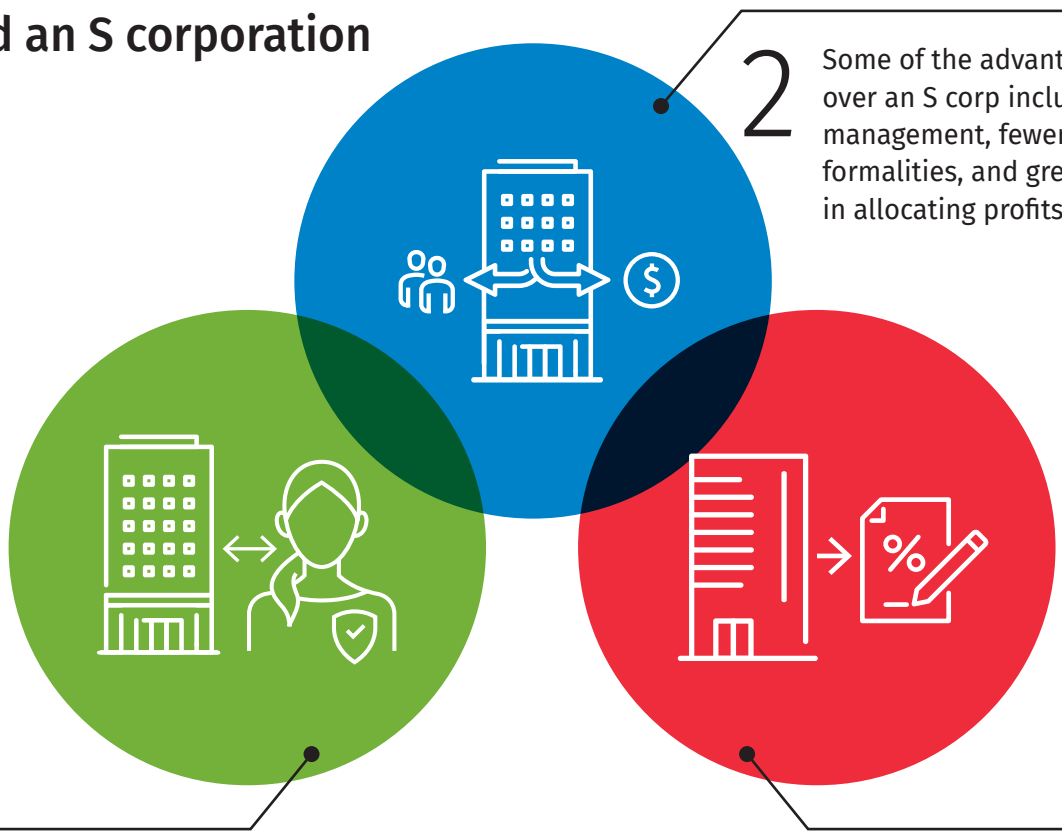


CT Corporation

LLC vs. S Corporation

When choosing a business form, business owners who want pass-through taxation often end up deciding between an S corporation and a limited liability company (LLC). Which structure is the better option depends on your business priorities.

Key differences between an LLC and an S corporation



1 Both are legal entities that exist separate from the people who own them. They also both offer limited liability protection and pass-through taxation.

2 Some of the advantages of an LLC over an S corp include flexible management, fewer corporate formalities, and greater flexibility in allocating profits and losses.

3 On the other hand, an S corp provides a key advantage in being more easily converted to a C corp, which is often necessary for raising significant capital through selling of stock or going public.

Reasons for choosing an S corp

- Earnings can be distributed proportionately to capital contributions
- Ability to earn a salary instead of self-employment income
- Greater ease of obtaining investment capital
- Pass-through taxation with the corporate entity form
- Want to become a C corp later

Reasons for choosing an LLC

- Higher degree of management flexibility in running your company
- Allocate profits and losses based upon criteria other than ownership percentage
- Avoid the state-mandated requirements imposed on corporations (ex. annual meetings)
- No plans to sell equity or go public
- Pass-through taxation is important

What about S corp election for an LLC?

An S corporation is a corporation whose shareholders elect to be taxed under Subchapter S of the Internal Revenue Code rather than Subchapter C, which is the default tax treatment for corporations. This election is made by filing IRS Form 2553.

(Although an S corp and a C corp are taxed differently, there is no difference between them as business entities under state corporation laws.)



An LLC can also elect to be taxed as an S corporation by filing Form 2553. However, if an LLC elects S corp taxation, it must satisfy all the S corp tax requirements, such as ownership restrictions, proportional distribution and liquidation rights, and other limitations.

Between an LLC and an S corporation, there is no single choice that is always better. The best option depends upon each individual owner's current needs and future plans. Working with a business professional is the best way to determine which business structure is best for you.

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