Wolters Kluwer CT

# LLC vs. S Corporation: Advantages and Disadvantages

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). LLCs and S corporations have some characteristics in common but are very different in other ways.

**LLCs and S Corps Are Each Separate Business Entities**
Their existence is separate from the people who own them

**LLCs and S Corps Both Provide Limited Liability**

**LLCs and S Corps Both Offer Pass-through Taxation**
Each governed by very different federal income tax rules

## You may prefer an S corp if you:

- want to have earnings distributed proportionately to capital contributions
- want to earn a salary instead of self-employment income
- want ease of obtaining investment capital
- want pass-through taxation but prefer the corporate form of entity
- want to be a C Corp later

## You may prefer an LLC if you:

- want high degree of management flexibility in running your company
- want to allocate profits and losses based upon criteria other than ownership percentage
- prefer to avoid the state-mandated corporation requirements
- don’t foresee raising capital by selling ownership stakes or by going public
- feel pass-through taxation is important


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 is best for you: LLC or S Corp.