

SOLE PROPRIETORSHIP

DETAILED COMPARISON CHART

Aspect	Details
Legal Structure	No separate entity - you ARE the business
Liability Protection	NONE - Personal assets at full risk
Tax Treatment	All profit = income tax + self-employment tax (15.3%)
Tax Forms	Schedule C (with Form 1040), Schedule SE
Tax Deadlines	April 15 (annual), Quarterly estimates if needed
Setup Requirements	Nothing required (may need DBA for business name)
Annual Compliance	Minimal - just tax filing
Consider For	Very short-term testing in high-cost states with minimal risk
Consider Changing If	Any liability risk, want credibility, revenue growing

Important: Offers no liability protection - your personal assets are at risk

SINGLE-MEMBER LLC

DEFAULT DISREGARDED ENTITY TAX TREATMENT

Aspect	Details
Legal Structure	Separate legal entity providing liability protection
Liability Protection	STRONG - Personal assets generally protected
Tax Treatment	SAME as sole prop - "disregarded entity" for tax purposes
Tax Forms	Schedule C (with Form 1040), Schedule SE
Tax Deadlines	April 15 (annual), Quarterly estimates if needed
Setup Requirements	File Articles of Organization with state (\$100-800)
Annual Compliance	State annual reports/fees, maintain separate banking
Consider For	Most solo businesses wanting protection with simple taxes
Consider Changing If	Consistently profitable and want to explore tax strategies

Popular Choice: *Good balance of protection and simplicity*

MULTI-MEMBER LLC

DEFAULT PARTNERSHIP TAXATION

Aspect	Details
Legal Structure	LLC with multiple owners/members
Liability Protection	STRONG - All members are generally protected
Tax Treatment	Partnership - pass-through to members via K-1s
Tax Forms	Form 1065 (partnership), K-1s to members
Tax Deadlines	March 15 (partnership), April 15 (personal)
Setup Requirements	Articles of Organization + Operating Agreement
Annual Compliance	Partnership return, state filings, operating agreement compliance
Consider For	Multiple business partners, need flexible profit sharing
Consider Changing If	High profits and comfortable with reduced flexibility

Flexible Option: Great for partnerships wanting customization

CORPORATION

DEFAULT C-CORPORATION TAXATION

Aspect	Details
Legal Structure	Separate corporate entity with strongest protection
Liability Protection	Strongest - Complete separation from owners
Tax Treatment	Double taxation - corporate rate (21%) + dividends
Tax Forms	Form 1120, 1099-DIVs, payroll forms if employees
Tax Deadlines	April 15 (corporate), quarterly estimates, payroll deadlines
Setup Requirements	Articles of Incorporation, bylaws, corporate formalities
Annual Compliance	Corporate returns, board meetings, extensive record keeping
Consider For	High growth, seeking investment, retaining earnings
Consider Changing If	Want pass-through taxation without outside investors

Growth Option: Best for scaling and investment

S-CORPORATION ELECTION

Aspect	Details
Legal Structure	Tax election applied to existing LLC or Corporation
Liability Protection	Depends on underlying entity (LLC or Corporation)
Tax Treatment	Pass-through + payroll taxes on salary portion only
Tax Forms	Form 1120S, K-1s, W-2s, quarterly payroll forms
Tax Deadlines	March 15 (S-Corp), payroll deadlines, April 15 (personal)
Setup Requirements	Underlying entity + Form 2553 election
Annual Compliance	S-Corp return, payroll compliance, reasonable salary
Consider For	Profitable service businesses with stable income
Consider Changing If	Income irregular, want flexibility, or dislike complexity

Tax Election Only: Can be applied to LLCs or Corporations

WHAT'S YOUR DEFAULT TAX TREATMENT?

DEFAULT TAX TREATMENTS & AVAILABLE ELECTIONS

Entity Formation	Default IRS Tax Treatment	How It Works
Nothing (Sole Prop)	Sole Proprietorship (Schedule C)	No election needed - automatic
Single-Member LLC	Sole Proprietorship (Schedule C)	No election needed - automatic
Multi-Member LLC	Partnership (Form 1065)	No election needed - automatic
Corporation	C-Corporation (Form 1120)	No election needed - automatic
Partnership	Partnership (Form 1065)	No election needed - automatic

AVAILABLE TAX ELECTIONS

SINGLE-MEMBER LLC ELECTIONS:

Can Elect To	Form Required	Election Deadline
S-Corp	Form 2553	March 15 or 75 days formation
C-Corp	Form 8832	Various timing rules apply

MULTI-MEMBER LLC ELECTIONS

Can Elect To	Form Required	Election Deadline
S-Corp	Form 2553	March 15 or 75 days formation
C-Corp	Form 8832	Various timing rules apply

CORPORATION ELECTIONS

Can Elect To	Form Required	Election Deadline
S-Corp	Form 2553	March 15 or 75 days formation

Sole Proprietorship:

- Cannot make tax elections
- Must form a legal entity (LLC or Corporation) first to access different tax treatments

Partnership:

- Cannot make federal tax elections while remaining a partnership
 - Must convert to LLC or Corporation to access S-Corp or C-Corp taxation
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STEP-BY-STEP ELECTION INSTRUCTIONS

HOW TO ELECT S-CORPORATION TAXATION

Who Can Make This Election:

- Single-member LLCs
- Multi-member LLCs (with restrictions)
- C-Corporations
- Must meet S-Corp eligibility requirements

S-Corp Eligibility Requirements:

- 100 or fewer shareholders/members
- All owners must be US citizens/residents
- Only one class of stock/membership interests
- No corporate or partnership owners
- Calendar year tax year (with limited exceptions)

Step 1: Determine Your Deadline

- For NEW entities: 75 days from formation date OR March 15th of the year you want election to take effect
- For EXISTING entities: March 15th of the year you want election to take effect
- Late elections possible but require special procedures

Step 2: Complete Form 2553 Required Information:

- Entity name, address, EIN
- Date of incorporation/formation
- Tax year desired (usually calendar year)
- All shareholders/members information
- Signature of all owners

Important: *These are general procedures. Always verify current requirements and consult with tax professionals, as rules and forms can change.*

STEP-BY-STEP ELECTION INSTRUCTIONS

HOW TO ELECT S-CORPORATION TAXATION

Key Sections:

- Part I: Basic entity information
- Part II: Selection of fiscal year (if not calendar year)
- Part III: Qualified subchapter S subsidiary election (if applicable)

Step 3: File Form 2553

- **Where to File:** Mail to IRS address based on your state (see Form 2553 instructions) OR Fax to designated number (faster processing)
- **What to Include:** Completed Form 2553, all required signatures, any supporting documentation

Step 4: Confirm Acceptance

- IRS will send Form 1120S Package or confirmation letter if election accepted
- If no response within 60 days, contact IRS
- Keep confirmation letter for your records

Important: *These are general procedures. Always verify current requirements and consult with tax professionals, as rules and forms can change.*

HOW TO ELECT C-CORPORATION TAXATION (FORM 8832)

Who Can Make This Election:

- Single-member LLCs
- Multi-member LLCs

Step 1: Complete Form 8832

- Entity Classification Election
- Check "Corporation" box
- Provide entity information
- Specify effective date

Step 2: File Within Deadline

- 75 days before effective date OR
- 75 days after formation for new entities

Step 3: Begin Corporate Tax Compliance

- File Form 1120 starting with election year
 - IRS will send Form 1120 Package or confirmation notice
 - Implement corporate formalities
 - Consider payroll requirements
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CRITICAL TIMING CONSIDERATIONS

S-CORP ELECTION DEADLINES

Scenario	Deadline	Form	Notes
New Entity	75 days from formation	Form 2553	Most common scenario
Existing Entity	March 15 of election year	Form 2553	For current year election
Late Election	Special procedures	Form 2553 + explanation	Requires reasonable cause
Revocation	Mar 1, 2015	Written statement	Can't re-elect for 5 years

Don't Miss These Deadlines:

- March 15th - S-Corp elections for current year
- 75 days - New entity election window
- January 31st - W-2s and payroll forms (if S-Corp)
- April 15th - Individual tax returns

Late Election Procedures: If you miss the deadline, you may still file a late S-Corp election by:

- Filing Form 2553 with reasonable cause explanation
 - Including statement that all shareholders consent
 - Providing justification for late filing
 - Note: Success not guaranteed - depends on circumstances
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ELECTION DECISION FRAMEWORK

COMMON CONSIDERATIONS FOR S-CORP ELECTION

S-Corp Election Often Makes Sense When:

- Business profit consistently over \$60,000
- You can justify a reasonable salary
- Income is stable enough for regular payroll
- Comfortable handling payroll compliance
- Want self-employment tax savings
- Don't need maximum flexibility

S-Corp Election May Not Be Right When:

- Income is irregular (hard to set consistent salary)
- Profit under \$40,000 annually
- Want to retain all earnings in business
- Multiple owners with complex arrangements
- Want to avoid payroll compliance burden
- Planning to bring in outside investors
- Need maximum operational flexibility

Quick S-Corp Savings Estimator:

Annual Business Profit: \$_____

Minus Reasonable Salary: \$_____

= Distribution Amount: \$_____

Potential Annual Savings:

Distribution × 15.3% = \$_____ (gross savings)

Minus Additional Costs: \$_____ (payroll + accounting)

= Net Annual Savings: \$_____

May be worthwhile if net savings > \$2,000-3,000

Consult with tax professional for your specific situation

ELECTION DECISION FRAMEWORK

COMMON CONSIDERATIONS FOR C-CORP ELECTION

C-Corp Election Often Makes Sense When:

- Planning to retain significant earnings in business (corporate tax rate may be lower)
- Seeking outside investment
- Want maximum fringe benefit opportunities
- Planning for eventual sale or going public
- Want strongest liability protection

C-Corp Election Usually Doesn't Work When:

- Want to distribute most profits to owners
 - Want to avoid double taxation
 - Prefer pass-through losses
 - Want simpler compliance
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WHEN TO SEEK PROFESSIONAL HELP

Consider DIY When:

- Simple S-Corp election for single-member LLC
- Straightforward situations with clear deadlines
- No complex ownership structures
- You understand the requirements and deadlines

Seek Professional Help When:

- Multiple owners/complex structures
- Late elections or special circumstances
- International considerations
- Revenue over \$500,000
- Considering C-Corp election
- Any uncertainty about eligibility or timing
- Need help weighing the pros and cons

Questions to Ask Professionals:

- "What's the optimal structure for my specific situation?"
 - "What are the ongoing compliance requirements?"
 - "How much might this save me annually?"
 - "What are the deadlines I need to know?"
 - "How do I change or revoke this election if needed?"
 - "What are the risks and downsides I should consider?"
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NEXT STEPS CHECKLIST

After Reviewing This Chart:

- Identify your current legal entity and tax treatment
- Evaluate if any elections might benefit your situation
- Calculate potential savings if considering S-Corp election
- Note critical deadlines on your calendar
- Gather required information for any elections
- [Consult professional for complex situations or uncertainty
- File elections before deadlines if proceeding
- Update business systems for new compliance requirements

Integration with Business Bootcamp:

- Complete "What Entity Am I?" assessment (Week 1)
- Review your section in the Entity Quick Reference Guide (Week 2)
- Set up tax filing calendar and deadlines (Week 2)
- Prepare banking systems for entity structure (Week 3)
- Plan for any payroll systems if electing S-Corp (Week 5)

Important Note: This chart covers federal requirements. State tax elections and requirements vary significantly. Always verify state-specific rules and consult with qualified professionals for your specific situation. Every business is unique, and what works for others may not be right for your circumstances.
