

Overview of S Corporations

The S corporation features the same limited liability protection as the C corporation. Business owners select S corporation status to avoid the double taxation of a C corporation. Only the S corporation's shareholders are subject to taxes (unlike a C corporation, the S corporation pays no tax). Because S corporations are taxed as proprietorships or partnerships, many people erroneously think that the S corporation similarly loses the limited liability feature of the C corporation. Consider only tax factors when deciding whether to become an S or C corporation. Leave this decision to your accountant.

It is easier to lawsuit-proof the stock ownership of a C corporation. S corporation shares must be owned by natural persons, or disregarded entities, such as a single member LLC. C corporations, limited partnerships, multi-member LLCs and other legal entities – with few exceptions – cannot own shares of an S corporation. You then have fewer options to protect your S corporation shares from personal creditors. However, you may protect S corporation shares in several ways. The S corporation has other key features:

- **The S corporation** has pass-through taxation. Corporate profits are taxed only once when they pass through to the shareholders. The S corporation is thus taxed as a proprietorship or partnership. The corporation itself is not taxed, its owners are.
- **The S corporation** is limited to 100 shareholders. Its shareholders must all be U.S. citizens or residents.
- **The S corporation** must be organized under U.S. law, have only one class of stock and not own 80% or more of the stock of another corporation. S corporation status is granted by the IRS. It is possible to change from C to S corporation status, within certain rigid IRS guidelines.