



# Ben Franklin Tax Services®

[www.benfranklintax.com](http://www.benfranklintax.com)

972-235-2357 (O)

214-224-0820 (F)

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S corporations (S-Corp) are C corporations or limited liability companies (LLC) (solo-member or multi-member) that elect to pass corporate or company income, losses, deductions, and credits through to their shareholders for federal tax purposes.

Shareholders of S corporations receive a Form K1 and report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates.

In case of C Corporations, this allows S corporations to avoid double taxation on the corporate profit .

In case of a solo-member or multi-member LLC, this allows S corporations to avoid paying Social Security and Medicare taxes (FICA taxes) on all profit.

However, any S corporation must **MUST** run appropriate payroll and pay **ALL** applicable FICA taxes for those wages.

To qualify for S corporation status, the corporation must meet **ALL** the following requirements:

- (1) Be a domestic corporation
- (2) Have only allowable shareholders
  - (a) May be individuals, certain trusts, and estates, and
  - (b) May not be partnerships, corporations or non-resident alien shareholders
- (3) Have no more than 100 shareholders
- (4) Have only one class of stock
- (5) Not be an ineligible corporation (i.e., certain financial institutions, insurance companies, and domestic international sales corporations).

Note: S corporations are responsible for tax on certain built-in gains and passive income at the entity level.

Courtesy of IRS.gov