

Entity Selection Cheat Sheet:

Tax Pros & Cons of LLC, S-Corp, and C-Corp

Choosing the right business entity isn't just about legal protection, it can shape your **tax strategy**, impact your take-home income, and even determine how or if you attract investors.

This guide is designed for business owners earning \$100K+ annually, or preparing for their next growth phase. **It's especially useful if:**

- ✓ You're re-evaluating your tax structure
- ✓ You're preparing for funding, hiring, or expansion
- ✓ You're outsourcing bookkeeping or looking to streamline operations

Entities at a glance:

LLC vs. S-Corp vs. C-Corp

	LLC	S-Corp	C-Corp
Taxation	Pass-through taxation	Pass-through taxation	Double taxation (corporate + dividends)
Self-Employment Taxes	Full SE tax on all income	Salary subject to SE tax; distributions are not	Not applicable to shareholders
Ownership Restrictions	Unlimited members	Up to 100 US shareholders	Unlimited, including foreign shareholders
Stock Structure	Not applicable	One class of stock	Multiple classes allowed
Ideal For	Freelancers, small teams	Growing businesses seeking tax efficiency	Startups planning to raise significant capital



Understanding Your Options:

LLC (Limited Liability Company)

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An LLC is one of the simplest ways to form a business and is often the starting point for freelancers, small business owners, and family-run companies. From a tax perspective, it's flexible. The IRS treats **single-member LLCs** as sole proprietorships and multi-member LLCs as partnerships by default, and both are subject to pass-through taxation.



Tax Basics

- Business income **"passes through"** to your personal return.
- Profits are subject to **self-employment tax** (Social Security and Medicare).
- Eligible for the **20% Qualified Business Income (QBI)** deduction through 2025 under current law.



When it works best:

If you're a **solo entrepreneur** or **small partnership** looking for simple administration, low compliance costs, and flexible management, without planning to raise venture capital.

S-Corp (S Corporation Election)

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An **S-Corp** is not a business entity itself but a tax classification that eligible corporations and LLCs can elect. The IRS allows qualified businesses to avoid double taxation while saving on self-employment taxes.



Tax Basics

- Like LLCs, income passes through to your **personal return**.
- Instead of paying self-employment tax on all profits, owners **pay themselves a reasonable salary** (subject to payroll taxes), while remaining profits can be taken as distributions, *which are not subject to self-employment tax*.
- Still eligible for the **20% QBI deduction** (through 2025).

Limitations:

- Only US citizens or residents can be shareholders.
- Limit of **100** shareholders.
- Only **one class of stock** is allowed.



When it works best:

Ideal for **small to mid-sized businesses** generating steady profit, where tax savings on self-employment tax make a difference.



C-Corp (C Corporation)



A **C-Corp** is the default corporate structure for businesses seeking to scale and raise capital. While it's often avoided by small businesses due to double taxation, it offers unique advantages for growth-minded entrepreneurs.



Tax Basics

- The company pays **corporate income tax** (21% flat federal rate in 2025).
- Shareholders pay tax again on **dividends** (qualified dividends are typically taxed at 15%-20%).
- **Not eligible** for the 20% QBI deduction.
- Can deduct **fringe benefits**, reinvest profits at a lower tax rate, and provide stock options.

Why it's still popular:

- No ownership restrictions:** foreign investors and institutional shareholders are allowed.
- Easier to raise venture capital** and issue **multiple classes of stock**.
- May qualify for Section 1202 (QSBS) benefits:** potentially excluding up to \$10M in capital gains if stock is held for 5+ years.



When it works best:

If you're **building a startup**, **seeking outside investors**, or planning to **scale nationally or globally**, the C-Corp is likely your best bet, especially if you're preparing for funding rounds or an IPO.

Tax Pros & Cons

LLC		S-Corp		C-Corp	
PROS	CONS	PROS	CONS	PROS	CONS
Simple setup and flexible management.	Entire net income subject to self-employment tax.	Pass-through taxation with potential savings on self-employment taxes.	Strict eligibility criteria (US shareholders only).	Flat 21% corporate tax rate as of 2025.	Subject to double taxation (corporate level and shareholder dividends).
Pass-through taxation avoids double taxation.	Limited options for raising capital compared to corporations.	Ability to split income between salary and distributions.	Increased administrative requirements, including payroll and filings.	No restrictions on ownership; suitable for attracting investors.	More complex compliance and reporting obligations.
Eligible for 20% Qualified Business Income (QBI) deduction through 2025.		Eligible for 20% QBI deduction through 2025.		Ability to offer multiple classes of stock.	



What to Consider Before Choosing:

- **Growth plans:** If you aim to attract investors or go public, a C-Corp may be preferable.
- **Tax efficiency:** S-Corps can offer tax savings for businesses with consistent profits.
- **Simplicity:** LLCs provide flexibility and are easier to manage for small operations.
- **State taxes:** Consider state-specific taxes and fees, as they can impact your choice.

Talk to a CPA or tax advisor before you finalize your structure — what saves one business thousands might cost another more in the long run.

After all, entity structure affects your payroll, investor readiness, and year-end taxes.

Don't wait until you're overwhelmed to make the call.



Book a free 30-minute consultation with our team to walk through your goals and get tailored advice — no strings attached.