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C Corporations vs. S Corporations

Many investors are interested in C Corporations and S Corporations. The following will discuss about the differences between them in terms of formation and taxation.

1. C Corporations vs. S Corporations: Formation

The C Corporation is the default corporation under Internal Revenue Service (IRS) rules. A C Corporation can elect to be taxed as an S Corporation by filing Form 2553 with the IRS. Please note while most states follow the federal S Corporations election, some jurisdictions do not recognize the S Corporations (e.g. New York City) or require separate state elections (e.g. New York State, State of New Jersey).

To obtain S Corporation tax status for a certain year, you should complete the Form 2553 no more than 2 months and 15 days after the beginning of the tax year the election is to take effect, or at any time during the tax year preceding the tax year it is to take effect.

IRS requires S Corporations cannot have more than 100 shareholders; issue more than one class of stock; have shareholders who are not U.S. citizens or residents; be owned by corporations, other S corporations (with some exceptions), LLCs, partnerships or many trusts. While C Corporations do not have above restrictions.

2. C Corporations vs. S Corporations: Taxation

C Corporations are separately taxable entities. They are subject to double taxation. C Corporations file the Form 1120 and pay the corporate income tax. Then the after-tax income distributed to shareholders as dividends will be taxed again and are reported by the shareholders on their personal tax returns.

On the other hand, taxation is fairly simple for the S Corporations. S Corporations are pass-through taxation entities. They file the information federal return (Form 1120S), but do not pay tax at the corporate level. The profits/losses are passed through the S Corporations to the shareholders and are only taxed to the shareholders on their personal tax returns.



If you wish to obtain more information or assistance, please visit our official website at www.kaizencpa.com or contact us through the following means:

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