

S CORPORATION

Simplicity in Operation and Formation	Same as a regular corporation.
Liability for Debts, Taxes, and Other Claims	Stockholders are not generally liable for corporate debts, but often have to guarantee loans, as a practical matter, if the corporation borrows money. Corporate officers may be liable to the IRS for failure to withhold and pay withholding taxes on employee's wages.
Federal Income Taxation of Business Profits	Taxed to individual owners at their individual rates – certain gains are taxable to the corporation as well.
Double Taxation if Profits Withdrawn from Business	No, in general.
Deduction of Losses by Owners	Yes, in general, for federal tax purposes, but not for state tax purposes in all states. Loss for a shareholder limited to investment in stock plus amount loaned to the corporation. Losses may be subject to "passive loss" restrictions.
Social Security Tax on Earnings of Owner from Business	Corporation pays half and employee pays half. Above a certain level of wages only Medicare tax is paid.
Unemployment Taxes on Earnings of Owner	Yes. State and federal unemployment taxes apply to salaries paid to owners.
Retirement Plans	Plans now essentially identical to regular corporate retirement plans, except limitations apply to certain shareholders /employees when borrowing from plan.
Tax Treatment of Medical, Disability, and Group-Term Life Insurance on Owners	Fringe benefits for some shareholders are deductible by corporation, but must be included in income of the shareholder who may be allowed to deduct a% of medical insurance from adjusted gross income.
Taxation of Dividends Received on Investments	Dividends taxable to individual shareholders of the S corporation, as in the case of a partnership.

NOTE: This overview is intended as general information only and may not include the latest developments. Check with your accountant or attorney for up-to-date information about which structure makes the most sense for your individual situation.