| S CORPORATION | C CORPORATION |
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| **Advantages** | **Advantages** |
| • Shareholder’s liability limited to investment in the corporation | • Shareholder’s liability limited to investment in the corporation |
| • Broader range of deductible expenses available | • Broader range of deductible expenses available |
| • Separate legal existence is clear and distinct | • Separate legal existence is clear and distinct |
| • Long term stability and permanence of business | • Long term stability and permanence of business |
| • Easy transfer of ownership | • Easy transfer of ownership |
| • Well established case law for protection of shareholder rights | • Well established case law for protection of shareholder rights |
| • Income flows to the shareholder level where tax rates are lower | • Availability of fiscal year end choice for non-PSC’s |
| • Flow-through income is subject to ordinary income tax rates, but not employment taxes | • Full employee/fringe benefits are available and deductible |
| • Flow-through income/loss retains it’s characteristics for special tax rates at the shareholder level (i.e., 15% capital gain rate) | • Multiple classes of stock allowed (common/preferred, etc.) |
| • Losses flow to shareholder level and can be applied to other income up to the shareholder’s investment in the company | • Unlimited number of shareholders are allowed |
| • Not subject to tax on excess accumulated earnings | • Nondisclosure (privacy) of shareholders can be achieved from the public and the IRS |
| • Not subject to IRS charges of excessive compensation | • Lower audit potential than “flow-through” entities |
| • Nondisclosure (privacy) of shareholders can be achieved from the public | • Sec. 1202 allows a partial exemption of gain and reduced tax rate on capital gains from the sale of qualified small business stock |
| • Particularly well suited for a company owned by family members, circumstances where a >10% shareholder will be providing services (i.e., consulting, engineering, health, accounting), and a company with net income less than $1-2 mil. | • Sec. 1244 allows an ordinary loss deduction $50k ($100K MFJ) for stock of a failed business upon dissolution |
| | • Particularly well suited to companies needing to raise capital, with many shareholders, company going “public, and with net income in excess of $1-2 mil. |

| S CORPORATION | C CORPORATION |
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| **Disadvantages** | **Disadvantages** |
| • Generally more complicated to form<br>• Generally more expensive to maintain<br>• Subject to extensive regulation<br>• Corporate records and formalities must be maintained<br>• Only one class of stock allowed<br>• Limitation on number of shareholders allowed<br>• Special limitations may apply on deductibility of employee/fringe benefits for >2% shareholders<br>• Generally required to be on a calendar year end; Fiscal year end choice not available except under limited circumstances requiring IRS approval<br>• Lack of IRS guidance regarding the “appropriate” level of compensation for shareholders who are also employees<br>• Subject to IRS charges of inadequate compensation for shareholder/employees<br>• Nondisclosure (privacy) of shareholders cannot be achieved from the IRS<br>• Greater audit potential than C corporation due primarily to shareholders/employees not taking adequate salary | • Generally more complicated to form<br>• Generally more expensive to maintain<br>• Subject to extensive regulation<br>• Corporate records and formalities must be maintained<br>• Income subject to higher tax rates than at the individual level<br>• Income subject to 35% flat tax under “personal service corporation” (PSC) regulations when services are performed by >10% shareholder<br>• Calendar year end required for company’s qualifying for PSC treatment<br>• Double taxation upon distribution of profits as dividends<br>• No special rate for capital gains (however first $50k of net income is taxed at 15%)<br>• Capital losses can only reduce capital gains, and are suspended indefinitely until capital gains exist<br>• Subject to tax on excess accumulated earnings<br>• Subject to IRS charges of excessive compensation |