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LLC vs. S-Corp vs. C-Corp

Choosing a business structure — in plain English, with the Florida details that matter.

Choosing how to structure your business is one of the first big decisions you'll make — and one of the few that touches your legal liability, your tax bill, and your paperwork all at once. The good news: it isn't permanent, and the "right" answer is genuinely specific to your numbers and your goals. Here's a plain-English look at the main options for a Southwest Florida small business, and the questions that actually drive the decision.

First, two questions — not one

People often ask "Should I be an LLC or an S-corp?" as if those are the same kind of thing. They're not. There are really two separate decisions:

- **Your legal structure** — how the business is organized under state law (sole proprietor, LLC, or corporation). This is mostly about **liability protection**.
- **Your tax classification** — how the IRS taxes the business (sole proprietor, partnership, S-corporation, or C-corporation). This is mostly about **your tax bill**.

Here's the part most people miss: an **LLC is a legal structure**, while **"S-corp" and "C-corp" are tax classifications**. An LLC can choose to be taxed as a sole proprietorship, a partnership, an S-corp, or even a C-corp. So "LLC vs. S-corp" is usually really the question: *should my LLC elect S-corp tax treatment?*

The main options

Sole proprietor (or single-member LLC, by default)

- The simplest and cheapest to run — income and expenses go on Schedule C of your personal return.
- All net profit is subject to **self-employment (SE) tax of 15.3%** (Social Security + Medicare), on top of income tax.
- A bare sole proprietor has **no liability protection**; forming a single-member LLC gives you legal protection while still being taxed this simple way.
- May qualify for the 20% Qualified Business Income (QBI) deduction.

LLC (default taxation)

- A state-law entity that shields your personal assets from most business liabilities.

- By default, a single-member LLC is taxed like a sole proprietor (Schedule C); a multi-member LLC is taxed as a **partnership** (Form 1065, with a K-1 to each owner).
- All net business income still flows to the owners and is generally subject to SE tax.
- Flexible: you keep the legal protection now and can elect S-corp tax treatment later, once the numbers justify it.

S-corporation (a tax election, not a separate company)

- Not a different kind of business — it's a **tax election** that an LLC or corporation makes (Form 2553).
- Still a pass-through: profit is taxed on the owners' personal returns, not at the entity level. The business files Form 1120-S and issues K-1s.
- **The draw:** owner-employees pay themselves a *reasonable salary* (W-2, subject to payroll taxes), and remaining profit can be taken as **distributions that are not subject to SE/payroll tax**. That gap is where the savings come from.
- **The catch:** you must run payroll, pay yourself a defensible wage, file a separate business return, and keep cleaner books. Those costs eat into the savings until profit is high enough.
- Owners may still qualify for the QBI deduction.

C-corporation

- A fully separate taxpayer: the company pays its own federal income tax at a **flat 21%**, plus Florida corporate income tax of **5.5% on income over $50,000** (Form F-1120).
- The classic drawback is **double taxation** — the corporation is taxed on its profit, then shareholders are taxed again on dividends.
- No QBI deduction (that's a pass-through benefit only).
- Can make sense for businesses that reinvest heavily, need certain fringe benefits, plan to raise outside investment, or have specific stock goals — but for most small, owner-operated Southwest Florida service businesses, it's usually not the first choice.

Side by side

	Sole Prop / LLC (default)	LLC or Corp as S-Corp	C-Corporation
Liability protection	LLC: yes · sole prop: no	Yes	Yes
How it's taxed	Pass-through on your 1040 (Sch C or partnership K-1)	Pass-through via Form 1120-S + K-1	Taxed at the company (1120), then again on dividends
SE / payroll tax	All net profit hit with 15.3% SE tax	Only your W-2 salary; distributions avoid SE/payroll tax	Wages subject to payroll tax; no SE tax on profit
Federal income tax	Your personal rates	Your personal rates	Flat 21% at the company

	Sole Prop / LLC (default)	LLC or Corp as S-Corp	C-Corporation
Florida income tax	None (no FL personal income tax)	None at the entity (no FL personal income tax)	5.5% on income over $50,000
20% QBI deduction	May qualify	May qualify	Not available
Paperwork	Lowest	Moderate — payroll + 1120-S + reasonable comp	Highest — corporate return & formalities
Often best for	New, smaller, or side businesses	Steady, profitable owner-operated businesses	Reinvesting, raising capital, specific goals

The decision that matters most: should you elect S-corp?

For most profitable Southwest Florida small businesses, the real question is whether to keep simple pass-through taxation or elect S-corp treatment to cut self-employment tax. The trade-off is straightforward:

- As a sole proprietor or default LLC, **every dollar of profit** is hit with 15.3% SE tax (plus income tax).
- As an S-corp, only your **salary** is subject to payroll tax; the rest comes out as distributions that skip SE/payroll tax — but you must pay a reasonable salary, run payroll, and file an extra return.

> **Rule of thumb (not a rule):** the S-corp election tends to start paying off once net profit is consistently in the ballpark of **$40,000–$60,000 or more** — enough that the SE-tax savings clearly exceed the added payroll, bookkeeping, and tax-prep costs. Below that, the simpler structure often wins. The only way to know for *your* business is to run the numbers.

A simplified example

Say an owner nets **$120,000** in profit:

- As a default LLC / sole prop: roughly **$17,000** in self-employment tax (before income tax).
- As an S-corp paying a **$70,000** reasonable salary: payroll taxes apply to the $70,000 (about **$10,700**); the remaining ~$50,000 distribution avoids SE/payroll tax.
- Rough SE/payroll-tax savings: **around $6,000** — *before* subtracting the cost of payroll, the 1120-S return, and documenting a reasonable wage.

These numbers are illustrative and rounded; your actual result depends on your salary, profit, and other income. Setting the salary artificially low to grab more savings invites an IRS challenge — “reasonable compensation” is an area they actively examine.

A few Florida-specific notes

- **No personal state income tax.** Florida doesn’t tax personal income, so pass-through profit (sole prop, LLC, S-corp) generally isn’t taxed at the state level — a real advantage for pass-throughs here.

- **C-corps do pay Florida tax.** A C-corporation pays Florida's 5.5% corporate income tax on income over $50,000 and must file Form F-1120 every year, even when no tax is due.
- **Annual upkeep.** LLCs and corporations must file an annual report with the state (Sunbiz) and keep a registered agent. It's modest, but it's a yearly obligation — miss it and the state can administratively dissolve your entity.

So which one is right for you?

Honestly — it depends, and that's not a dodge. The right answer turns on your profit level and how steady it is, whether you have partners or employees, your liability exposure, your plans to reinvest or raise money, and your other income. The structure that's perfect at $30,000 of profit is often the wrong one at $150,000.

What we do is model it with your **actual numbers** — current and projected — and show you the after-tax difference side by side, including the real cost of the added compliance, so the choice is based on dollars, not guesswork. If an S-corp election makes sense, we also handle the election (and its timing, which matters) and the ongoing payroll and filings.

> This article is general educational information, not tax, legal, or financial advice for your specific situation. Entity selection has both legal and tax dimensions — the legal formation of an LLC or corporation may call for an attorney, and the right tax choice depends on facts we'd review together. Tax laws change. Please consult Spargur Tax & Accounting before acting.

Ready to run your numbers? Call (239) 777-3366 or visit spargurtax.com to schedule a consultation.