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Guide · S corps & entities 6 min read

LLC vs. S Corp: Which Structure Is Right for Your Business?

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The short answer

An LLC is a legal structure. An S corp is a tax election an LLC can make. A default single-member LLC pays self-employment tax on all profit. An LLC taxed as an S corp pays payroll tax only on a reasonable salary. At $120,000 of profit and a $60,000 salary, a single filer saves about $5,160 in 2026 federal tax, or about $2,700 after roughly $3,000 a year to run the S corp. Below about $80,000 of profit, the election rarely pays.

Two different questions

The LLC question is legal: do you want a separate entity that protects your personal assets from business liabilities? For most owners, yes.

The S corp question is about tax: once the LLC exists, do you want it taxed as an S corporation instead of by default? That depends on profit, stability and your willingness to run payroll.

Side by side

	Default single-member LLC	LLC taxed as S corp
Federal return	Schedule C on your 1040	Form 1120-S plus a K-1
Self-employment / payroll tax	15.3% on 92.35% of all profit (to $184,500)	15.3% on your salary only
Owner pay	Draws, any time	Salary through payroll, then distributions
QBI deduction	On profit less half of SE tax	On distributions only; your salary helps the wage limit
Extra annual cost	Minimal	About $2,500–$4,000
Best for	Under about $80k profit, or variable income	Consistent profit above about $100k

Worked example: $120,000 of profit

A single owner with $120,000 of net profit pays about $16,955 in self-employment tax as a default LLC. With an S corp election and a $60,000 salary, payroll tax on that salary is about $9,180. After income tax and the QBI deduction on both sides, total federal tax falls by about $5,160. Take out about $3,000 a year for the 1120-S, payroll and unemployment tax (which also shrinks the QBI deduction) and the net benefit is about $2,700 a year, or roughly $225 a month for the extra paperwork.

State rules to check first

- California: 1.5% S corp franchise tax, $800 minimum
- New York City: doesn't recognize the S election for city corporate tax
- Tennessee and some other states tax entity income directly
- Pass-through entity tax (PTET) elections may make an S corp more attractive in high-tax states

Frequently asked questions

Is an S corp a type of LLC?

No. An LLC is a legal entity formed under state law. An S corp is a federal tax election that an LLC or corporation can make with Form 2553.

Can I switch back from an S corp?

Yes, by revoking the election, but you generally can't re-elect for five years. Plan the decision rather than testing it.

General information based on federal law for tax year 2026, not tax advice for your situation. State rules vary.

Want this applied to your situation? Book a free 30-minute call with Akanchya Acharya, CPA at acharyacpa.com/contact or email akansha@acharyacpa.com.

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