Guide · S corps & entities 9 min read

Should a Physician Elect S Corp Status? The 2026 Math Most Doctors Aren't Shown

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Updated October 30, 2026 · Written for physicians and other clinicians who own their practice or work as 1099 contractors through a PLLC or professional corporation

The short answer

Sometimes, but the savings are smaller than physicians are usually told. An S corp saves payroll tax only on profit above a reasonable salary, and a physician's reasonable salary usually passes the $184,500 Social Security wage base, which leaves only the 2.9% Medicare tax (3.8% at high incomes) to save. Health care is a specified service business, so the 20% QBI deduction phases out between $403,500 and $553,500 of married taxable income, and below that range the S corp salary shrinks the deduction. In our 2026 examples, the S corp costs money at $350,000 of profit, saves roughly $4,000 to $9,000 at $600,000, and $12,000 to $16,000 at $900,000, before a few thousand dollars a year in payroll and tax return costs. In a state with an income tax, the pass-through entity tax election can be worth more than the payroll savings.

How an S corp saves tax, and why physicians save less

A PLLC you own alone is taxed as a sole proprietorship by default. All of its profit is subject to self-employment tax: 12.4% Social Security on the first $184,500 for 2026, 2.9% Medicare on everything, and another 0.9% Medicare above $250,000 for married couples ($200,000 single). With an S corp election, you pay yourself a W-2 salary and take the rest of the profit as distributions, which carry no Social Security or Medicare tax.

The catch for physicians is the size of that salary. The IRS requires reasonable compensation: roughly what the practice would have to pay someone else to do your clinical and management work. For a full-time physician that's

usually a salary well into six figures, supported by specialty compensation surveys and your hours.

Once the salary passes $184,500, Social Security is maxed out under either structure. The only tax the S corp still saves is Medicare on the distributions: 2.9%, or 3.8% where the additional Medicare tax applies. That's a real saving at high profit, but it's a fraction of the 15.3% figure that S corp pitches are built on.

The QBI problem: medicine is a specified service

Section 199A gives pass-through owners a deduction of up to 20% of qualified business income. Health is a specified service trade or business. For 2026, a physician gets the full deduction below $403,500 of taxable income married ($201,750 single), a shrinking deduction across the next $150,000 ($75,000 single), and none above $553,500 married ($276,750 single).

- Above the phase-out range, an S corp gets you no QBI deduction at all, so any case for the election built on the 20% deduction doesn't apply to you.
- Below or inside the range, the S corp shrinks your QBI deduction, because your W-2 salary isn't qualified business income. Only the distributions are. A $175,000 salary removes up to $35,000 of deduction.
- Being under the threshold depends on household taxable income, so a spouse's income, investment income and retirement contributions all move you around the range.

Worked examples for 2026

Married filing jointly, standard deduction, no state income tax (as in Washington), no retirement plan and no other income. Totals are federal income tax plus Social Security and Medicare. They don't include the cost of running the S corp. Your numbers will differ.

Practice profit	S corp salary	Sole proprietor	S corp	Difference
$350,000	$175,000	$76,000	$77,300	S corp costs about $1,200 more
$350,000	$210,000	$76,000	$80,900	S corp costs about $4,900 more
$600,000	$250,000	$169,700	$161,000	S corp saves about $8,700
$600,000	$400,000	$169,700	$165,800	S corp saves about $3,900
$900,000	$350,000	$286,800	$271,100	S corp saves about $15,700
$900,000	$450,000	$286,800	$274,300	S corp saves about $12,400

At $350,000 the lost QBI deduction outweighs the payroll savings. At $600,000 the result swings by almost $5,000 depending on the salary, and a defensible salary for a full-time specialist sits nearer the top of that range. An S corp also costs money to run: payroll processing and filings, a separate Form 1120-S, and in some states annual fees. Budget a few thousand dollars a year, which can absorb most of the savings at $600,000.

> The lower the salary, the bigger the savings and the bigger the audit exposure. A $250,000 salary on $600,000 of profit may be hard to defend for a full-time specialist. Set the salary from evidence and keep that evidence in your file.

Where an S corp still earns its keep

State income tax. The federal SALT deduction cap is $40,400 for 2026, but it's reduced by 30 cents for each dollar of income above $505,000, down to $10,000. Colorado and most other income-tax states let an S corp or partnership elect to pay the state tax at the entity level, where it's deducted without the cap. For a physician earning $600,000 or more in an income-tax state, that deduction can be worth more than the payroll savings. Washington has no income tax, so this doesn't apply there.

High profit. The Medicare savings grow with every dollar of profit above a defensible salary. At $900,000 and up, they're meaningful every year.

A single, steady income stream. A 1099 physician or locums contractor with no staff and one payer keeps the extra admin small.

Reasons to skip it or wait

Profit under roughly $400,000, where the lost QBI deduction can outweigh the payroll savings.

Retirement contributions matter to you. Employer contributions to a 401(k) profit-sharing or cash balance plan are based on W-2 salary in an S corp, so a low salary shrinks how much you can put away and deduct.

You're a partner in a group practice taxed as a partnership. You can't elect S corp status for your own share. Holding your interest through your own entity is possible but needs careful modeling.

You expect to bring in partners with different economics or sell soon. An S corp allows only one class of stock, which makes uneven deals and some exits harder than in a partnership.

Health insurance and other benefits for an owner with more than 2% of the S corp have to run through payroll to be deductible, which adds steps your bookkeeping needs to get right.

What to do before you elect

Run the comparison at your real profit, with your spouse's income and your state's tax.

Set the salary using specialty compensation data and your clinical hours, and document it.

If household taxable income is under $553,500, model the QBI deduction both ways.

In an income-tax state, model the pass-through entity tax election alongside the payroll savings.

To start in 2027, file Form 2553 by March 15, 2027. Late-election relief exists if you've missed a deadline.

Frequently asked questions

Do physicians get the 20% QBI deduction?

Only below certain income levels. Medicine is a specified service business, so for 2026 the deduction phases out between $403,500 and $553,500 of married taxable income ($201,750 to $276,750 single) and is zero above that.

What is a reasonable salary for a physician in an S corp?

Roughly what the practice would pay someone else to do your work. Specialty compensation surveys, your hours and the practice's collections are the usual evidence. For a full-time physician it's typically above the $184,500 Social Security wage base.

Is a PLLC the same as an S corp?

No. A PLLC is a state-law entity. By default a single-owner PLLC is taxed as a sole proprietorship and a multi-owner PLLC as a partnership. Either can elect to be taxed as an S corp by filing Form 2553.

Should a 1099 physician form an S corp?

It depends on profit and state. In our 2026 examples with no state income tax, the election cost money at $350,000 of profit and saved roughly $4,000 to $9,000 at $600,000 before running costs. In an income-tax state, the entity-level state tax election can tip the answer.

Does an S corp help with the SALT deduction cap?

In states with an income tax, often yes. Most of those states, including Colorado, let an S corp pay the state tax at the entity level, where it's deductible without the federal cap. Washington has no income tax, so there's nothing to move.

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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