



ENTITY STRUCTURE • CLIENT GUIDE

The Business Entity Guide

LLC vs. S-Corp vs. C-Corp: the structure you choose on day one can save, or cost, thousands.



The right entity is the one that matches your numbers, not your neighbor's.

S-Corp election can meaningfully reduce self-employment tax, but only once profit clears the cost of running payroll and a separate return. Below that line, it can cost more than it saves.

◆ Sole proprietorship: the default, not a plan

If you start doing business without forming anything, you're a sole proprietorship by default. It's the simplest structure to run and the weakest at protecting you: there is no legal separation between you and the business, so business liabilities are personal liabilities. All profit is subject to both income tax and self-employment tax, with no structural way to reduce the self-employment tax portion.

◆ LLC: liability protection first

A limited liability company creates a legal boundary between your personal assets and the business's debts and obligations. That boundary, not tax savings, is the core reason to form one. By default, a single-member LLC is taxed exactly like a sole proprietorship and a multi-member LLC like a partnership; the LLC itself doesn't change how profit is taxed unless you elect otherwise.

◆ S-Corp election: a tax election, not an entity

An LLC (or a corporation) can elect S-Corp tax treatment, which allows the owner to take a reasonable salary as a W-2 employee and take remaining profit as a distribution that is not subject to self-employment tax. That split is where the tax savings live, but it comes with real costs: running actual payroll, filing a separate business return, and paying yourself a salary the IRS would consider genuinely reasonable for the work you do. Below a certain profit level, those added costs outweigh the self-employment tax saved, which is why this is a numbers-driven decision rather than a default good idea.

◆ C-Corp: the exception, not the rule

A C-Corp pays its own corporate income tax, and profits distributed to owners as dividends are taxed again on the owner's personal return, the double taxation that gives most small-business owners pause. It earns its place for businesses raising outside investment, planning to reinvest most profit rather than distribute it, or seeking specific stock-based tax advantages, but it is rarely the right first structure for an owner-operated business.

◆ State-level considerations

Entity decisions don't stop at the federal return. Virginia, Maryland, and DC each layer their own registration, franchise, and filing requirements on top of the federal structure, and they don't always treat an S-Corp election the same way the IRS does, which is worth checking before, not after, you file.

◆ Key Takeaways

- An LLC's core benefit is liability protection; by itself, it doesn't change how profit is taxed.
- S-Corp election can cut self-employment tax, but only once profit clears the cost of payroll and a separate return.
- Virginia, Maryland, and DC each layer their own entity requirements on top of the federal rules.

How Emrys Can Help

We run the actual numbers, your real profit, not a rule of thumb, before recommending a structure, and we help you make the change cleanly if your business has outgrown the one you started with.

◆ *This guide is for general informational purposes only and does not constitute tax, legal, or accounting advice for any specific situation. Consult Emrys Tax Advisors before acting on it.*