



A BUSINESS OWNER'S DECISION GUIDE

# LLC vs. S-Corp vs. C-Corp

CHOOSING YOUR STRUCTURE

The single most important tax decision you'll make as a business owner — explained in plain English, with a clear framework for picking the structure that fits where you are now.

**21%**

flat federal rate  
on a C-corp

**20%**

QBI deduction for  
pass-through owners

**15.3%**

self-employment tax —  
an S-corp can reduce

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FOR

New & growing business owners

## 01 FIRST, CLEAR UP THE CONFUSION

Most owners mix up two separate questions. The first is **legal**: what entity you form with the state (an LLC or a corporation). The second is **tax**: how the IRS taxes that entity. "S-corp" and "C-corp" are tax classifications — not entities you form at the courthouse. Once you separate those two ideas, the whole decision gets simpler.

### THE LEGAL ENTITY

What you register with the state — usually an **LLC** or a **corporation**. This governs liability protection and ownership, and exists regardless of how you're taxed.

### THE TAX TREATMENT

How the IRS taxes the profits — as a **sole prop, partnership, S-corp, or C-corp**. An LLC can be taxed any of these ways. This is where most of the savings live.

### THE KEY INSIGHT

An **LLC is not a tax status**. By default a single-owner LLC is taxed as a sole proprietor and a multi-owner LLC as a partnership — but the same LLC can elect to be taxed as an S-corp or C-corp. So the real question isn't 'LLC or S-corp?' It's 'how should my business be taxed?' That's what this guide answers.

On the next pages we walk through each tax treatment, then give you a side-by-side comparison and a simple framework for matching the structure to your stage of business.

## 02 THE THREE PATHS EXPLAINED

### PASS-THROUGH

*Sole Prop / Partnership / Default LLC*

Profit flows straight to your personal return; no separate business income tax. Simple and cheap to run, but every dollar of profit is subject to the 15.3% self-employment tax. The natural starting point for most new businesses.

**Best for: brand-new or lower-profit businesses that value simplicity.**

### S-CORPORATION

*An election for an LLC or corporation*

Still a pass-through, but it splits income into a reasonable W-2 salary (payroll-taxed) and distributions (not). That split can save thousands in self-employment tax once profit is steady. The trade-off is payroll, a separate return, and more recordkeeping.

**Best for: steadily profitable owner-operators comfortably above their reasonable salary.**

### C-CORPORATION

*A corporation taxed in its own right*

The company pays a flat 21% federal tax on its profits. Money paid out to owners as dividends is taxed again personally — the classic "double taxation." But it allows unlimited owners, multiple share classes, and retained earnings, which is why investors and high-growth startups favor it.

**Best for: businesses raising outside capital, retaining profit to grow, or planning to scale big.**

## 03 SIDE-BY-SIDE COMPARISON

Here's how the three tax treatments stack up across what matters most to an owner.

	PASS-THROUGH	S-CORP	C-CORP
<b>How profit is taxed</b>	Once, on your 1040	Once, on your 1040	Twice: 21% + dividends
<b>Self-employment tax</b>	On all profit	On salary only	On salary only
<b>QBI 20% deduction</b>	Yes	Yes	No
<b>Owner pays via</b>	Owner's draw	Salary + distributions	Salary + dividends
<b>Separate tax return</b>	No (Schedule C)	Yes (1120-S)	Yes (1120)
<b>Payroll required</b>	No	Yes	Yes
<b># of owners</b>	Flexible	Max 100, US only	Unlimited
<b>Outside investors</b>	Hard	Limited	Easy
<b>Admin burden</b>	Low	Medium	High

### NO SINGLE WINNER

No single column wins for everyone. The right answer depends on your profit level, whether you're raising money, how much profit you keep in the business, and how much administration you're willing to take on. The next page turns this into a simple decision path.

## 04 A SIMPLE WAY TO DECIDE

You don't have to get this perfect on day one — structures can change as you grow. But this framework gets most owners to the right starting point.

1

### **Are you raising outside investment or keeping large profits in the company to scale?**

If yes, a C-corp is often the answer despite double taxation — investors expect it and retained earnings are taxed at a flat 21%. If no, stay pass-through and keep reading.

2

### **Is your profit steady and comfortably above a reasonable salary for your work?**

If yes, an S-corp election usually starts saving you self-employment tax. If profit is modest or irregular, the savings may not yet beat the added payroll and filing costs.

3

### **Is simplicity and low cost your priority while the business is young?**

If yes, stay a default pass-through (sole prop or partnership) for now. You can elect S-corp status later, often retroactively to the start of the year, once profits justify it.

#### **WHY THIS ISN'T DIY**

State rules, California's franchise tax, your other income, and your growth plans all shift the math. The wrong election can cost more than it saves — or be expensive to unwind. We model the actual numbers for your situation before recommending anything.

### **Not sure which fits you?**

We'll model each structure against your real numbers and recommend the right one.

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This guide is general education, not tax or legal advice, and reflects federal rules for the 2025 tax year (returns filed in 2026), including the 21% C-corporation rate and the 20% QBI deduction made permanent under the 2025 tax law. Thresholds and the example figures are illustrative; California adds its own rules and your situation will differ. Please consult Milestone before acting.