

S-CORP ELECTION TOOLKIT

Reduce Your Self-Employment Tax with IRS Form 2553

A complete, instruction-driven guide to understanding, filing, and maintaining the S-Corporation tax election — with every form field explained, every deadline mapped, and every compliance requirement documented.

Form 2553 Walkthrough	Reasonable Salary Guide	Tax Savings Calculator
Compliance Calendar	Payroll Setup Guide	Common Audit Triggers

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INTRODUCTION

Is the S-Corp Election Right for You?

The S-Corporation tax election is one of the most powerful and widely underused tax strategies available to self-employed individuals and small business owners. With a single IRS form and a straightforward payroll setup, profitable LLC and corporation owners can legally reduce the amount of income subject to self-employment taxes — often saving thousands of dollars per year.

But the election comes with real responsibilities. Payroll. Quarterly filings. Reasonable salary requirements. Compliance calendars. Done correctly, the savings far outweigh the costs. Done carelessly, it invites IRS scrutiny and potential penalties.

Who this toolkit is for: Self-employed individuals, LLC owners, and small business owners whose net annual profit consistently exceeds \$40,000–\$50,000 and who want a clear, step-by-step system for filing the S-Corp election, setting a defensible salary, staying compliant, and maximizing their tax savings.

What This Toolkit Covers

This is not an overview. Every chapter is instruction-driven — covering exactly what to do, when to do it, what forms to file, and what mistakes to avoid. The companion files included with this toolkit are:

- ✓ **S-Corp Election Toolkit.pdf** — This guide — complete instruction manual
- ✓ **Form 2553 Walkthrough.docx** — Field-by-field IRS Form 2553 completion guide
- ✓ **Reasonable Salary Worksheet.xlsx** — Interactive calculator for salary determination
- ✓ **S-Corp Compliance Calendar.docx** — Annual and quarterly compliance task tracker

■■ IMPORTANT

This toolkit is for educational purposes only. It does not constitute tax or legal advice. The S-Corp election and its tax implications are complex and vary based on your income, state, business structure, and circumstances. Consult a CPA or tax professional before filing.

CHAPTER 1

What the S-Corp Election Actually Does

The S-Corporation is not a legal entity type — it is a tax classification. When you elect S-Corp status, your LLC or corporation keeps its exact same legal structure. Nothing changes from a liability protection standpoint. What changes is how the IRS taxes your income.

Understanding the Default: How LLCs Are Taxed Without the Election

By default, a single-member LLC is taxed as a disregarded entity. All net profit flows to Schedule C on your personal return. You pay:

- Ordinary income tax on all net profit at your personal rate
- Self-employment (SE) tax of 15.3% on the first \$168,600 of net profit (2024 threshold)
- 2.9% Medicare tax on all net profit above that threshold

Example: \$120,000 Net Profit Without S-Corp Election

Item	Amount	Notes
Net Business Profit	\$120,000	Before any deductions
SE Tax (15.3% on \$120K)	(\$18,360)	Owed on full profit amount
SE Tax Deduction (50%)	\$9,180	Above-the-line deduction
Taxable Income (24% bracket)	\$110,820	After SE deduction
Federal Income Tax (est.)	(\$26,597)	At 24% rate
Total Tax Burden (est.)	~\$44,957	SE + income tax combined

How the S-Corp Election Changes the Tax Calculation

With an S-Corp election, you split your income into two buckets:

- **Bucket 1 — Reasonable Salary:** You pay yourself a W-2 wage. This amount IS subject to payroll taxes (FICA: Social Security + Medicare = 15.3%, split between employer and employee).
- **Bucket 2 — Distributions:** The remaining profit is taken as owner distributions. This amount is NOT subject to self-employment or payroll taxes.

Example: Same \$120,000 Net Profit WITH S-Corp Election

Item	Amount	Notes
Net Business Profit	\$120,000	Same starting point
Reasonable Salary (W-2)	\$60,000	Subject to payroll taxes
Distribution (not taxed for FICA)	\$60,000	No SE/payroll tax owed
Payroll Tax on Salary (15.3%)	(\$9,180)	On \$60K salary only
Federal Income Tax (est.)	(\$26,000)	Similar to before
Total Tax Burden (est.)	~\$35,180	Combined tax burden
Estimated Annual Savings	~\$9,777	By electing S-Corp status

Key Insight: The savings come entirely from the portion of profit taken as distributions rather than salary. The larger the defensible distribution — relative to a reasonable salary — the greater the savings. However, the salary must be genuinely reasonable or the IRS will reclassify distributions as wages and assess back payroll taxes plus penalties.

CHAPTER 2

Eligibility Requirements

Before filing Form 2553, confirm your entity meets all IRS eligibility requirements. An election filed for an ineligible entity is automatically void.

Complete Eligibility Checklist

■ Domestic entity

The corporation or LLC must be organized in the United States under federal or state law. Foreign entities are not eligible.

■ Eligible shareholders only

All shareholders must be: U.S. citizens or permanent resident aliens, estates, certain trusts, or tax-exempt organizations. Partnerships, corporations, and non-resident aliens CANNOT be shareholders.

■ 100 shareholder maximum

The S-Corp cannot have more than 100 shareholders. All members of a family (as defined by IRS) may be treated as a single shareholder for this count.

■ One class of stock only

An S-Corp can only have one class of stock. Differences in voting rights are permitted but all shares must have identical economic rights (distributions, liquidation proceeds). No preferred stock.

■ Not an ineligible corporation

Certain financial institutions, insurance companies, and Domestic International Sales Corporations (DISCs) are ineligible regardless of other factors.

■ All shareholders must consent

Every current shareholder must sign Form 2553 consenting to the election. A single shareholder refusing to consent blocks the election.

■ End of Preview

The complete 28-page S-Corp Election Toolkit is available for purchase

- ✓ 28-Page S-Corp Election Toolkit (PDF)
- ✓ Form 2553 Field-by-Field Walkthrough (.docx)
- ✓ Reasonable Salary Worksheet (.xlsx) — Interactive Calculator
- ✓ S-Corp Compliance Calendar (.docx) — All Deadlines
- ✓ Eligibility Checklist + Audit Trigger Guide
- ✓ Payroll Setup Step-by-Step Guide
- ✓ Late Election Relief Instructions (Rev. Proc. 2013-30)

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